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The Regulation of Milk Marketing in England and Wales



UNITED STATES DEPARTMENT OF AGRICULTURE

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The Regulation of Milk Marketing in England and Wales

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THE REGULATION OF MILK MARKETING IN ENGLAND AND WALES

INTRODUCTION

Efforts of the Government of Great Britain in recent years to reconstruct the agricultural industry of that country have centered to a great extent about the Agricultural Marketing Act of 1931. A measure of far-reaching importance, this act gives effect to the principle of "compulsory cooperation" by providing for the imposition of the will of a majority of producers upon a recalcitrant minority. It is an enabling act designed to make possible the formulation of a marketing program for the complete control of the marketing of the whole output of a commodity, including the fixing of prices and conditions of sale, by a producers' board. Before any program becomes effective, two-thirds of the producers, in terms both of the number of producers voting and of their productive capacity, must favor the program. If approved by Parliament, the provisions of the program have the force of law and are legally enforceable on all producers, while statutory powers are vested in the producers' board. It may be revoked when a majority of voting producers, by number and volume, so desire.

The act was amended and broadened by the Agricultural Marketing Act of 1933. This provides, among other things, for the quantitative regulation by the Government of imports of any agricultural commodity for which a marketing program is being prepared, or is in effect, if the control of imports is essential to the successful operation of the program. It also provides for the granting of powers to producers' boards under programs to regulate the sales of the home-produced output.

The most important and comprehensive program as yet developed under the provisions of the Agricultural Marketing Acts is that for the control by producers in England and Wales of the marketing of milk, a program known as the Milk Marketing Scheme.¹ Under this scheme, introduced in October 1933 and amended in 1936 and 1937, a Milk Marketing Board, elected by producers, fixes the prices and other terms for the sale of milk by producers, the prices varying according to the purpose for which the milk is utilized. Higher prices are fixed for milk for fluid consumption than for milk for other uses. Producers continue the former practice of contracting individually with handlers, but the terms of the contracts, with the exception of premiums for special services, are prescribed by the board. This power of the board is limited only by the requirement that buyers must be consulted and by the provision for appeal to the Minister of Agriculture and Fisheries. All payments by handlers

¹ The term "scheme" is used to designate both the system of control in effect and the statutory instrument approved by Parliament providing for, or authorizing, this control.

are made to the board, which equalizes returns among producers in each of 11 regions, and reduces any undue variation between regions by a system of interregional levies and payments. Although the scheme makes possible a regional differentiation in distributors' buying prices, the board has in practice fixed uniform prices throughout England and Wales. It also fixes resale prices, though these vary between different-sized localities. Producer-distributors are compelled to contribute to the equalization pool of the nondistributing producers. The Milk Marketing Board enforces the provisions of the scheme and of its own orders through the power to impose penalties on violating producers registered under the scheme. The sale of milk by unregistered producers, unless specifically exempted, is a criminal offense. The board also owns and operates milk plants, administers a quality-improvement program, and promotes, through various programs, the consumption of milk. The scheme does not provide, however, for the quantitative control of sales of milk by the board, nor was its introduction accompanied by any program for the limitation of imports of butter or cheese.² Special legislation enacted by Parliament in 1934 (Milk Act of 1934), and amended in 1936 and 1937, provides for the payment of subsidies on milk converted into manufactured dairy products so as to bring returns to producers for this milk up to specified guaranteed levels, and for contributions by the Government for the financing of the programs to improve the quality of milk and increase its consumption.

To safeguard the interests of the public and of the distributors and processors, the Agricultural Marketing Acts provide for the establishment of a Consumers' Committee and of a Committee of Investigation. The former is charged with reporting to the Minister of Agriculture and Fisheries regarding (1) the effects on consumers of schemes in operation, and (2) specific complaints made by consumers. The Committee of Investigation is charged with considering and reporting, when so directed by the Minister, on findings of the Consumers' Committee and on complaints by any group other than consumers which is adversely affected by the schemes. Relief in the latter case is applicable only to actions or provisions shown to be not in the public interest. The Minister may give effect, if he so desires, to the findings of the Committee of Investigation by issuing an order amending the scheme, by directing the producers' board concerned to rectify the matter in question, or by revoking the scheme. An order for the latter purpose must be approved by each House of Parliament, while for the other purposes it must not be disapproved by either House, before becoming effective. He may also, with the approval of Parliament, revoke a scheme on his own initiative or on the recommendation of the Consumers' Committee.

Under the provisions of the Agricultural Marketing Acts, there have also been formulated for various areas in Scotland three milk-marketing programs known, respectively, as the Scottish Milk Marketing Scheme, the Aberdeen and District Milk Marketing Scheme, and the North of Scotland Milk Marketing Scheme.³ The provisions

² Since June 1933 imports of condensed milk, dry milk, and cream from leading supplying countries have been limited by "voluntary" agreement.

³ A program has been proposed for the control of the marketing of milk products, but at the time of this writing (December 1937) it had not yet been adopted.

of these schemes are similar to those of the English scheme (covering England and Wales), but in terms of the number of registered producers and of the volume of milk handled they are of considerably less importance. The number of producers registered under the English scheme in September 1935 was 165,363, while the number registered under the Scottish scheme was only 8,202 (in December); under the Aberdeen and District scheme, 805; and under the North of Scotland scheme, 393. Of the total wholesale sales of milk under the four schemes from October 1934 to September 1935, 88.6 percent was accounted for by the English board, 10.5 percent by the Scottish board, 0.7 percent by the Aberdeen and District board, and 0.2 percent by the North of Scotland board.⁴

This study deals with the scheme in England and Wales. As a background for the consideration of the various aspects of regulation under its provisions, there is given in part I a brief account of the dairy industry in England and Wales, and in part II a description of the marketing structure and conditions prior to the introduction of the scheme. Part III deals with the report of the Reorganization Commission for Milk (for England and Wales), which formed the basis of the scheme's provisions; part IV, with the details and operation of the scheme; part V, with the terms of the 1935-36 and later wholesale contracts; part VI, with the provisions of the Milk Act of 1934, as amended in 1936 and in 1937; and part VII, with the proposals of the Cutforth Commission (Reorganization Commission for Milk for Great Britain) to amend the scheme. Part VIII presents a comparison of the main features of regulation under the English scheme with those under the Agricultural Marketing Agreement Act in the United States, under which the marketing of milk is controlled in certain interstate markets by the Federal Government.

⁴United Kingdom Ministry of Agriculture and Fisheries, *Milk: Report of the Reorganisation Commission for Great Britain*, Economic Series No. 44, pp. 17, 19, 1936. This report will be referred to hereafter as Economic Series No. 44.

I—SOME FACTS REGARDING THE DAIRY INDUSTRY IN ENGLAND AND WALES

The output of milk in England and Wales is utilized primarily for consumption in fluid form. While approximately one-third of the total volume of milk produced in that country in 1935—excluding that consumed on farms, sold by small producers, and made into farm butter—was utilized in the production of manufactured dairy products, a large share of this represented milk produced and intended for fluid consumption. In a sense, all of the milk-producing area of England and Wales, though varying in the conditions under which milk is produced and in the intensiveness of production, may be considered as a single fluid milkshed serving the metropolitan and industrial centers of the country, of which London is the largest. "There is no part of England or Wales which could not quite easily ship fresh milk daily to the London market."⁵ Prior to the introduction of the Milk Marketing Scheme, other consuming areas in England and Wales constituted secondary markets in relation to the London area. In general, distributors' buying prices in these markets were related to prices in London and the difference in transportation costs from the source of production to these markets and to London. These relationships were altered, however, with the establishment of uniform buying prices under the scheme.

PRODUCTION

Milk for fluid consumption is produced in all parts of England and Wales, but the heaviest milk-supply areas are the northwestern and southwestern regions of England. (The greatest concentration of the population is in the southeastern region of the country.) Only a few isolated farming areas, remote from consuming centers, are devoted exclusively to the production of milk for manufactured-products uses. Under the Milk Marketing Scheme all milk not consumed or converted into manufactured products on farms is normally sold for consumption as fluid milk at fluid prices, but provision is made for rebates to large buyers on milk utilized for manufacturing purposes so as to reduce the buying price for this milk to a realization-value basis. It should be pointed out in this connection that the practice of selling cream from farms either for consumption as cream or for manufacturing uses, a common practice in the United States, has never prevailed in England and Wales to any important extent.

In recent years the dairy industry in England and Wales has shown a pronounced though gradual expansion. This has been due in a large measure to an increase in the profitability of dairying in relation to other types of agricultural production, particularly cattle

⁵ Sorenson, Helen, and Cassels, John M., "The English Milk Market," *Quarterly Journal of Economics*, 50: 276, February 1936.

raising and grain farming, though the actual returns to dairy producers have declined since 1929. In 1934-35 the value of the output of milk and dairy products in England and Wales amounted to £56,560,000 (approximately \$275,000,000),⁶ or 28 percent of the total value of all agricultural products. It was exceeded only by the value of the output of livestock.⁷

On December 4, 1935, there were 3,080,390 cows and heifers (in milk or calf) in England and Wales, the largest number on record.⁸ This was equivalent to 76 head per 1,000 of the population of the country.⁹

The production of milk per cow in England and Wales in 1930-31, the last year for which data are available, was reported at 462 imperial gallons (4,772 pounds).¹⁰ This compares with an average production per cow in the United States in 1931 of 4,461 pounds.

The aggregate production of milk in England and Wales in 1930-31 (year ended June 4, 1931) was reported as 1,263 million gallons (13,044,000,000 pounds). Of this quantity, 75.1 percent was sold off farms and utilized as fluid milk, 1.3 percent was sold as cream, 11.1 percent as butter, and 4.8 percent as cheese. The remainder (exclusive of milk fed to cattle), 7.7 percent, was variously consumed on farms.¹¹ The total production of milk in the year ended May 1935 has been estimated at 1,399 million gallons.¹²

The seasonal variation in production in England and Wales is somewhat similar to that in the United States. The month of lowest output is November while the month of heaviest production is May, though the rate of output during June is only slightly lower than during May.¹³

SANITATION CONTROL

Regulations regarding sanitary requirements to be met in the production of milk in England and Wales are issued by the national government, although their enforcement is left to local authorities.¹⁴ An important fact about these regulations is that, except for special grades of milk for which there are additional requirements, they apply uniformly to milk intended for use in the manufacture of dairy products and to milk intended for fluid consumption. The cost in any locality of producing milk for fluid purposes is, therefore, no greater than the cost of producing milk for manufacturing purposes.

⁶ All conversions to American currency in this study are at the pre-depression par rate of exchange, i. e., £1 equals \$4.8665. The rate of exchange during November 1937 averaged \$4.9961.

⁷ United Kingdom Ministry of Agriculture and Fisheries, *Agricultural Statistics: 1935*, Part I, p. 51, 1936.

⁸ *Ibid.*, p. 39.

⁹ The population of England and Wales in 1935 was 40,645,000. The number of cows and heifers per 1,000 persons in 1935 in the United States was 202.

¹⁰ One imperial gallon is equivalent to approximately 1.2 United States gallons, or, in the case of milk, to 10.328 pounds. All references to gallons in this study are to imperial gallons.

¹¹ United Kingdom Ministry of Agriculture and Fisheries, *Report of the Reorganisation Commission for Milk (England and Wales)*, Economic Series No. 38, p. 33, 1933. This report will be referred to hereafter as Economic Series No. 38.

¹² *Agricultural Statistics: 1935*, Part I, p. 47.

¹³ Based on average daily sales through the Milk Marketing Board from October 1934 to September 1935. See Economic Series No. 44, p. 308.

¹⁴ In the United States sanitation control regarding the production and sale of fluid milk and dairy products is exercised principally by municipal and State authorities. Federal regulations are limited to the enforcement of minimum standards with respect to butterfat, solids-not-fat, and the like, of milk and dairy products moving in interstate commerce.

The supply of milk normally utilized for manufacturing uses is available, consequently, for shipment to fluid markets under favorable price conditions, especially in view of the proximity of even distant producing areas to the large consuming centers.

The Milk and Dairies Order, issued in 1926, provides "for the registration of all persons carrying on the trade of cowkeeper or dairyman, and of all farms or other premises used as dairies."¹⁵ It also contains "provisions intended to secure the cleanliness of dairies, cowsheds, cows, and the persons milking or handling milk, as well as the provisions for preventing the milk itself from becoming contaminated or infected. Wide powers are also given to the medical officers of health of the registering authorities to prevent the spread of infectious disease; they may, for instance, prohibit the sale of milk from suspected premises, or prohibit a suspected individual from taking part in the production, distribution, or storage of milk."¹⁶ The Tuberculosis Order, issued in 1925, "enables a local authority, on the report of a veterinary inspector, to order the slaughter of cows giving tuberculous milk or which on examination show definite clinical signs of tuberculosis or appear to be suffering from tuberculosis of the udder, and provides for a sliding scale of compensation to the owner."¹⁷

The Milk (Special Designations) Order, issued in April 1936, provides for the control of the sale, and the designation, of special grades of milk and supersedes previous regulations of a similar character. Provision is made in the 1936 Order for the use of three designations—"tuberculin tested," "accredited," and "pasteurized." "Tuberculin tested" milk must come from herds in which all the animals are tested at specified intervals for tuberculosis and from which those reacting to the test are removed or segregated. The designation "accredited" is applied to milk from herds in which the animals are periodically examined, though not necessarily tested, and from which those showing evidence of disease are removed. No requirements beyond pasteurizing are to be met in the case of milk designated as "pasteurized." "Tuberculin tested" and "accredited" milk must be transported, bottled, and labeled in accordance with specified regulations. Producers and dealers meeting the specifications prescribed for the production and processing of the special grades of milk and desiring to use the corresponding descriptions must obtain a license from the Government.

While the regulations in regard to sanitation appear to be comprehensive, there is no guarantee that ungraded milk sold to consumers "is of recognized hygienic quality,"¹⁸ especially since a large part of the supply is not pasteurized. As indicated above, enforcement of sanitation regulations is left to local authorities, who in many instances are extremely lax in their duties. While in some localities inspections of dairy herds are made at regular intervals, in other districts "the majority of the farmers remain in blissful ignorance that any inspection can take place."¹⁹ The apprehension of the general

¹⁵ Economic Series No. 38, p. 51.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ *Ibid.*, p. 56.

¹⁹ *Ibid.*, p. 52.

public concerning the safety of milk has been cited as one reason for the relatively low consumption of fresh milk in England and Wales.

Related to the provisions for the sanitary production of milk is the prohibition against the sale of adulterated milk, this being a quasi-criminal offense. Milk containing less than three percent fat, or less than 8.5 percent solids-not-fat, is presumed to be adulterated. It should be pointed out in this connection that milk is generally purchased in England and Wales on a gallon basis without regard to the butterfat test. The contracts used by producers and distributors in the sale and purchase of milk from 1922 to 1933 under the collective agreements then in operation merely provided that milk sold under the contract shall be "pure new milk, sweet, clean and marketable, with all its cream and without the addition of any preservative."²⁰ This language has been retained in the contracts prescribed by the Milk Marketing Board for the sale of milk by producers to distributors under the provisions of the scheme. The purchase of milk without reference to its butterfat content also prevails in the case of milk purchased by creameries and cheese factories.

CONSUMPTION

The consumption of fresh milk in England and Wales has been estimated at about $2\frac{1}{2}$ British pints per capita per week,²¹ and has varied but slightly in recent years. The direct relationship between the amount of milk consumed and the income of families, noted in the United States by various investigators, appears to be true to a still greater extent in England and Wales. Some English surveys have shown that, while the per capita consumption of milk in the higher-income groups is slightly more than 5 pints per week, this quantity dwindles to negligible proportions in families at the low-income levels. It has been found that among the poorest 10 percent of the population the consumption of fresh milk is less than 1 pint per capita per week, and that among the poorest 3 percent of the population it is less than two-fifths of a pint per week, notwithstanding the fact that the poorest sections of the population include a relatively large proportion of families with young children.²²

Two types of cream are consumed in England and Wales—fresh cream and canned cream. A large proportion of the latter is supplied by imports. Estimated direct per capita consumption of fresh cream in England and Wales does not exceed 1 pint per year.²³ The reason for this low rate of consumption would appear to be the lower standard of living, relative to the United States, prevailing in England and Wales. An official report states that the regular purchase of cream in that country "is mainly confined to the more well-to-do."²⁴ The use of cream in coffee, an important outlet for this commodity in the United States, is very limited in England and Wales, while at the same time the consumption of coffee is itself less important than in this country, tea being a more popular beverage. A factor contribut-

²⁰ Economic Series No. 38, p. 193.

²¹ Economic Series No. 44, p. 193.

One British pint is equivalent to approximately 1.2 United States pints.

²² *Ibid.*, p. 194.

²³ Economic Series No. 38, p. 41.

²⁴ United Kingdom Ministry of Agriculture and Fisheries, *Report on the Marketing of Dairy Produce in England and Wales, Part II, Butter and Cream*, Economic Series No. 30, p. 109, 1932.

ing, however, to the low rate of consumption has been the high retail prices for cream. While the prices paid to producers, prior to the inauguration of the Milk Marketing Scheme, for milk utilized for cream were lower than fluid-milk prices, the retail prices for cream, on the basis of butterfat content, were about the same as for milk.²⁵

While not directly related to the subject of this study, data regarding the per capita consumption of butter and cheese are of some interest. The consumption of butter per person in the United Kingdom in 1936 has been estimated at 24.8 pounds. This was higher than in any previous year except 1934 and 1935, when it was estimated at 25.2 pounds per capita. The consumption of cheese in 1936 has been estimated at 8.8 pounds per capita, and compares with a consumption of 9.1 pounds in 1935 and 9.4 pounds in 1934.²⁶

DISTRIBUTION

The system of milk distribution in England and Wales differs in two important respects from that in the United States, and to that extent will be discussed here. First, in this country the function of receiving milk from producers, processing it, and retailing it to consumers, with the exception of the sale of milk through stores or peddlers, is generally integrated in a single enterprise. In England and Wales, on the other hand, a so-called wholesale distributor intervenes in many instances between the producers and the retail distributors. Operating in some cases in several markets at the same time, the wholesale distributor purchases milk from producers and resells it to retail distributors who have no facilities for handling surplus milk or, in some cases, even for conducting processing operations. Wholesalers also provide accommodation supplies to distributors whose regular supplies fall below their immediate requirements. In addition, they cater to peddlers, stores, and large consumers, and in some instances even distribute milk at retail. They conduct their operations from country stations, factories, or city plants.²⁷

Second, the consumers' cooperative societies, unimportant in the distribution of milk in the United States, constitute the largest retail distributors of milk in England and Wales. In 1934 they retailed 22.5 percent of the fluid milk in that country.²⁸ These cooperatives conduct their own wholesaling operations and have even entered into milk production. In negotiations with producers they have often differed with proprietary distributors, in that they have sought to secure low retail prices, while the proprietary distributors have emphasized the need of adequate distributive margins. (See part V.)²⁹

²⁵ Economic Series No. 38, p. 42.

²⁶ United Kingdom Imperial Economic Committee, *Dairy Produce Supplies: 1936*, pp. 13 and 22, 1937.

²⁷ Retail distributors who obtain their supplies directly from producers also operate from country stations and city plants, or from city plants only. In the latter case their facilities for handling surplus milk are generally limited, and in case of a shortage in their supplies they resort to accommodation supplies from wholesalers. In the event their surplus exceeds their manufacturing facilities, they may divert some of this surplus to creameries and factories or cut off their supplies for a brief time, if their contracts permit. Economic Series No. 38, pp. 26-29.

²⁸ *The Home Farmer*, Official Organ of the Milk Marketing Board, 3(1): 10, January 1936.

²⁹ Producer-distributors are also an important element in milk distribution in England and Wales. In the 12 months from October 1934 to September 1935 they accounted for 17 percent of the retail sales of milk. Economic Series No. 44, p. 19.

FOREIGN TRADE

The dairy industry in the United Kingdom³⁰ is predominantly on an import basis as regards manufactured dairy products. Fully 91 percent of the butter supplied in that country in 1936 was imported from overseas sources. Of the 1,191,000,000 pounds of butter supplied in that year, only about 106,400,000 pounds were produced at home. Similarly, external supplies constituted 71 percent of the cheese consumed in the United Kingdom in 1936. Only 121,856,000 pounds of an aggregate consumption of 418,880,000 pounds were domestically produced.³¹ Considerable quantities of evaporated, condensed, and dry milk are also imported, and in some years foreign cream has been sold in United Kingdom markets. Even the fluid milk supply has at times been supplemented by shipments from outside sources, principally the Irish Free State.³² These facts are significant because of the relationship between prices of domestically-manufactured and imported dairy products and the effect that the imported-products prices have had in the past on prices of fluid milk and on the entire milk-marketing structure.

Under the conditions which have prevailed in the international trade in butter in recent years, the dairy industry in the United Kingdom has been exposed to unfavorable factors over which it had no control and which affected adversely its economic position. The world trade in butter has presented the peculiar anomaly of an increasingly larger volume of butter entering this trade in the face of increasing restrictions against the importation of butter by importing countries other than the United Kingdom. With the exception of the United States, which in the several years preceding 1935 has been practically on a domestic basis with reference to butter, the United Kingdom is the only important butter importer that has permitted the sale of foreign butter in its markets without quantitative limitations. The only restriction which it has imposed has been an import duty of 15 shillings per 112 pounds, equivalent to about 3.3 cents per pound, on foreign butter. Empire supplies are admitted free of duty. In contrast, the other historically important butter-importing countries—Germany, France, Belgium, and Italy—have imposed quantitative restrictions as well as tariffs or other imposts, in some instances limiting import allocations to negligible quantities. At the same time, without any important exception, the butter-exporting countries have adopted in recent years various measures to aid their dairy industries. In practically all instances these measures have been designed to encourage the exportation of dairy products.

These developments have resulted to an increasing extent in a concentration of world supplies of butter on the relatively unrestricted United Kingdom markets. The quantity of foreign butter marketed in the United Kingdom has consequently reached unprecedented proportions. Net shipments rose from 702,700,000 pounds in 1929 to 1,084,000,000 pounds in 1936, an increase of approximately 54 percent.

³⁰ Since 1922 the United Kingdom has included Great Britain (England, Wales, and Scotland) and Northern Ireland; prior to that time it included all of Ireland.

³¹ *Dairy Produce Supplies: 1936*, pp. 13-23.

³² *Economic Series No. 38*, pp. 15, 49-50.

In 1929 total imports of the 14 most important butter-importing countries, not including the United States, amounted to 1,103,800,000 pounds. Of this quantity, the United Kingdom took 63.7 percent and Germany 26.8 percent. By 1936 total imports of the same countries had increased to 1,293,600,000 pounds, while the proportion taken by the United Kingdom had increased to 83.8 percent, and that taken by Germany had decreased to 12.8 percent.³³

This abnormal supply situation in the United Kingdom butter markets, coincident with the decline in the general price level, resulted in a sharp reduction in butter prices during the depression years. Thus, the average price of New Zealand finest butter at the London, Bristol, and Liverpool markets declined continuously from 177.5 shillings per hundredweight (of 112 pounds) in 1929 to 78.25 shillings in 1934,³⁴ a decrease of 56 percent. (Some recovery in prices has occurred during 1935 and 1936, however.) As these lower prices were reflected in returns for milk normally utilized for manufacturing purposes, producers of such milk invaded fluid-milk markets, where higher prices prevailed. This trend was aided by the development of improved facilities, such as the tank truck and tank car, for transporting milk over long distances. As will be seen later, this trend was one of the factors which led milk producers to organize under the Agricultural Marketing Acts.

³³ United Kingdom Imperial Economic Committee, *Dairy Produce Supplies in 1934*, p. 65, July 1935, and *Dairy Produce Supplies: 1936*, p. 71.

³⁴ *Dairy Produce Supplies in 1934*, p. 78.

II—THE MARKETING OF FLUID MILK IN ENGLAND AND WALES PRIOR TO 1933

CONDITIONS BEFORE THE WORLD WAR

The disposal of milk from farms in England and Wales in the years immediately preceding the World War was characterized by contracts between individual producers and dealers, by the consignment of "platform" milk to large markets by producers for sale at whatever price could be obtained, and by direct sales of milk from producers to consumers. Under these conditions, "terms of sale were arranged individually between the farmer and the buyer and prices varied substantially from farmer to farmer."³⁵ There was little or no collective action in the purchase or sale of milk and each producer was generally uninformed as to prices obtained by other producers. Contracts were usually concluded for 6-month periods, though yearly contracts were sometimes made. The 6-month contracts commonly ran from October to March and from April to September. Producers selling on the basis of the shorter contract period often found themselves without a buyer during the summer months and had to dispose of their milk through other channels.

Milk was sold by producers on a flat-price basis. While the price to the distributor was generally higher in winter than in summer, milk was retailed at a uniform price the year round. The distributor thus performed "the function of equalizing the retail price of milk throughout the year as well as being nominally responsible for a portion of the surplus."³⁶ Although prices received by producers for fluid milk were nominally higher than for milk sold for manufacturing purposes, it appears that there was little or no difference in net returns to producers after allowance for the greater distances over which fluid milk had to be transported.³⁷ In view of the unorganized position of producers there was no effective way for realizing returns in the fluid trade greater than those in manufacturing outlets.

Some attempts were made during the pre-war period to organize dairy cooperatives, "mainly by producers who were dissatisfied with the returns received under the existing methods of sale and who hoped to obtain, through collective action, a larger proportion of the retail price."³⁸ But many of the cooperatives "were inadequately financed and were not conducted on real cooperative lines."³⁹ Under these circumstances only a few proved to be successful.

³⁵ Cohen, Ruth L., *The History of Milk Prices*, p. 17, 1936.

³⁶ Economic Series No. 38, p. 174.

³⁷ Cohen, Ruth L., *op. cit.*, p. 21.

³⁸ Economic Series No. 38, p. 174.

³⁹ *Ibid.*

WARTIME CONTROL

Abnormal conditions during the World War brought about the control of the sale of milk by the Government through the Ministry of Food from December 1916 to April 1920.⁴⁰ This was undertaken because of an apparent shortage in milk resulting from a scarcity of labor and feed supplies, due to the requisitioning of hay by the army and to increased requirements of military hospitals. At first the Government fixed prices to producers and retail prices at given differentials above pre-war levels. Beginning with October 1917 specific prices were fixed, though these prices varied from month to month in most instances. The distributor's margins, as well as prices to producers, were increased above pre-war levels. Also, higher retail prices were fixed for winter than for summer months, a practice which has continued to the present time. The policy pursued by the Ministry of Food during the period of control was that of fixing prices at generous levels as a means of ensuring sufficient supplies of milk.

In 1918 the Ministry of Food took over control of about 800 wholesale distributors. It also undertook in that year to regulate purchases and sales of milk. "The normal supply or quota permissible for consumption in each area was determined, and machinery was set up to regulate supplies and prevent shortage in part of an area by deflecting milk from factories or by reducing the quota allotted over the whole area."⁴¹ In commenting on this experiment in Government control, the Grigg Reorganization Commission for Milk (see part III) concluded that "it had demonstrated most forcibly the advantages of unified action in the marketing of milk. The various sections engaged in the industry saw the advantages from their own point of view of fixed prices or fixed margins, and realized that these would no longer be obtainable if the industry reverted to the individualistic basis on which it had been conducted before the war."⁴²

With the withdrawal of government control early in 1920, prices to producers declined sharply but recovered later in the year. Another decline occurred in 1921 and contract prices in the winter of 1921-22 averaged 25 percent less than in the corresponding period a year earlier, while in the summer of 1922 they averaged 42 percent below those in the previous summer.⁴³ During this period producers again negotiated and contracted individually with distributors. Such dairy cooperatives as existed were small in size or were limited to the collective operation of butter and cheese plants.

COLLECTIVE BARGAINING

Attempts to remedy the above-mentioned conditions through collective bargaining for prices and conditions of sale were made as early as in the autumn of 1920, but these met with failure. Negotiations with the National Federation of Dairymen's Association, representing distributors, were begun at that time by the National Farmers' Union, a general farm organization, of which not all milk pro-

⁴⁰ Lloyd, E. M. H., *Experiments in State Control*, pp. 245-253, 1924; and Beveridge, William H., *British Food Control*, pp. 409-414, 1928.

⁴¹ Economic Series No. 38, p. 175.

⁴² *Ibid.*

⁴³ Cohen, Ruth L., *op. cit.*, p. 62.

ducers were members. The latter is to be distinguished from the cooperative marketing organization common in the United States, which either sells or acts as the sales agent for its members. The efforts of the National Farmers' Union were directed at a voluntary agreement specifying prices and other terms to govern the sale of milk by producers to distributors. Under the circumstances it had no power to enter into any legal obligations regarding the sale of milk by British producers. Neither could the representatives of associations of handlers enter into any legally binding contracts regarding the purchase of milk.

Further attempts at collective bargaining were made by representatives of the National Federation of Dairymen's Association and the National Farmers' Union, but it was not until the late summer of 1922, following a sharp decline in prices earlier in the year, that an agreement was successfully concluded. The body negotiating the agreement came to be known as the Permanent Joint Milk Committee and consisted, in addition to representatives of the above-mentioned organizations, of representatives of associations of retailers, wholesalers, and manufacturers. Beginning in 1929, the consumers' co-operatives were also represented on the committee in the negotiation of an agreement for that and later years.

The agreement, or national agreement, as it was known, was an arrangement between representatives of producers and distributors on the committee specifying the prices and other terms that were to prevail in the sale of milk by producers to distributors. It was intended to apply to the London market and, with modifications as agreed to by area joint committees (consisting of representatives of producers and distributors in various areas), to other markets. It was voluntary in character and contemplated the continuance of individual contracts between producers and distributors. The form of contract to be used in the sale of milk was prescribed in the agreement. Since the agreement was only optional, contracts on terms other than those specified in it were common. Producers selling to the larger London dealers received the agreed price, but the remaining producers were constrained to strike their own bargains with distributors. The Grigg Commission, in speaking of the 1922 and later agreements, stated that, "while the settlement has been intended to apply nationally subject to modification by mutual agreement to meet local circumstances, the negotiated contracts have not found acceptance with any degree of uniformity throughout the country."⁴⁴ The disadvantages arising from the voluntary and unenforceable provisions of the agreement were mostly borne by the producers. While the sale of milk to handlers at prices below those fixed in the agreement was widespread, it had become extremely difficult for producers to obtain any higher prices or better conditions than those specified in the agreements.

The national agreements negotiated by the Permanent Joint Milk Committee should be distinguished from the contracts for the sale of milk in the United States between cooperative marketing organizations and distributors. Such contracts are legally binding, whereas the national agreements merely served as a basis for the contracts between individual producers and distributors. The

⁴⁴ *Ibid.*, pp. 190-191.

weak position of the agreements under these arrangements is readily apparent.

National agreements were negotiated by the committee in every year from 1922 until 1932, extending to October 1933, when the Milk Marketing Scheme came into effect.

Notwithstanding the shortcomings of the agreements, their provisions are of interest as an indication of the trend of marketing practices in England and Wales from 1922 to 1933. Of particular importance was the provision for the base-rating plan⁴⁵ used in the agreements from 1922-23 to 1928-29. In adopting this plan the Permanent Joint Milk Committee was influenced undoubtedly by developments in the United States. A delegation representing producers and distributors visited this country early in 1922 to study the methods of fluid-milk marketing. At that time the base-rating plan had been in operation in the Baltimore market for approximately 4 years and in the Philadelphia market for approximately 3 years. Under this plan, distributors paid higher prices to producers for a specified quantity of milk based upon their average monthly production during a specified base period, generally the low-production period of the fall and winter months, and paid prices related to the value of manufactured dairy products for the remainder. It did not assure, however, that producers would receive the higher prices for all milk sold by handlers for fluid consumption. The agreements negotiated by the committee in England and Wales attempted to surmount this difficulty by providing for the payment of higher prices for varying percentages of the base quantity in different months, the variation corresponding roughly to the probable changes in consumption of fluid milk. Thus, in the 1922-23 agreement higher, or so-called fluid, prices were paid to producers for 110 percent of their bases during the period April to September, 1923.⁴⁶ Variations in the proportions payable at these prices in other periods during which this plan was in operation are shown in table 1.

TABLE 1.—Percentage of base quantity payable at fluid prices under the Permanent Joint Milk Committee agreements, 1922-23 to 1928-29

Month	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
October.....	100	95	90	12 100	12 90	12 90	12 100
November.....	12 100	95		12 100	12 90	12 90	12 100
December.....	12 100	1 95	13 90	12 100	12 90	12 90	12 100
January.....	12 100	1 95		100	90	90	100
February.....	2 100	95		100	90	90	100
March.....	100	95	90	100	90	90	100
April.....	110	115	115	100	110	110	115
May.....	110	110	110	115	110	110	115
June.....	110	110	110	115	110	110	115
July.....	110	115	115	115	110	110	115
August.....	110	115	2 100	2 100	2 100	2 100	2 100
September.....	110	115	2 100	2 100	2 100	2 100	2 100

¹ Deliveries during this month or period were used in the computation of the base quantity.

² Of all deliveries during the month.

³ Of all deliveries during this period.

From United Kingdom Ministry of Agriculture and Fisheries, *Report of the Reorganisation Commission for Milk (England and Wales)*, Economic Series No. 38, p. 182, 1933.

⁴⁵ Also called the base-surplus, and the basic-surplus, plan.

⁴⁶ The base quantities established during the base period were used in the payment of fluid prices for deliveries during this period and during the preceding months, if any, of the same contract period.

In the 1929-30 agreement the base-rating plan was abandoned, and a new plan, based on the producer's "declared quantity," was inaugurated. The "declared quantity" was the producer's estimate of the daily quantity of milk he would deliver during the contract period. The agreement provided for three classes of contracts, based on variations from the "declared quantity" of 10 percent, 20 percent, or 50 percent. Producers contracting on the basis of the lower percentage variation received higher fluid prices than other producers. In the event a producer's supply exceeded or was below the declared quantity, after allowance for the permitted percentage variation, he was penalized 2 pence (approximately 4 cents) per gallon on the excess or deficiency. In the agreements for 1930-31 to 1932-33 this plan was modified to the extent that the contract providing for a 50-percent variation from the "declared quantity" was eliminated and in its place a new type of contract was instituted. This new contract provided for the payment of fluid prices for a specified percentage of all deliveries in each month, and prices related to manufactured-products values for the remainder. In the 1930-31 contract the proportion payable at fluid prices varied from 65 percent in May and June to 90 percent in the 4-month period from October to January, and averaged 80 percent for the year. Under the 1930-31 and later agreements, distributors had the right to choose the class of contract under which they would buy milk. Also, for excess milk purchased under the "declared quantity" contracts, producers were to receive only prices related to values for manufactured dairy products. The proportion of the milk for which producers received fluid prices under the third type of contract was lowered to an average of 75 percent in the 1931-32 and in the 1932-33 agreements.⁴⁷

All of the agreements from 1922-23 to 1932-33 specified higher fluid prices for the winter than for the summer months. In the 1922-23 agreement prices from October to March, uniform during this whole period, were 67 percent higher than prices from April to September, also uniform during the whole period. In the subsequent 3 years the seasonal variation was reduced, while at the same time prices were varied in some years within the high- and low-priced periods. Thus, in the 1925-26 contract average prices during the fall and winter months were only 28 percent higher than during the spring and summer months, while prices for April and September were higher than prices during the remaining spring and summer months. The degree of seasonal fluctuation in prices varied during the remainder of the period of the national agreements, and in 1932-33 the maximum average variation under any type of contract was 36 percent, while the maximum winter prices were 55 percent higher than the minimum summer prices.

Prices for fluid milk specified in the national agreements were f. o. b. the buyer's city plant or railway station. For milk delivered at a country station two deductions were made from fluid prices: (1) a sum equal to the transportation costs from the station to the market; and (2) a sum varying from $\frac{1}{2}$ to 2 pence per gallon (9.8 to 39.3 cents per 100 pounds) to cover transit risks, but comprising in effect not only a charge for the transit risks involved in transporting milk from a country station to a city plant, but also a

⁴⁷ Economic Series No. 38, p. 184.

charge for country-station services. No deductions were made from manufacturing prices. No retail prices were named, "although distributive margins and, consequently, the retail price level were important considerations when producers' prices were the subject of negotiations," while in some agreements specific provision was "made as to the proportionate allocation of any increase or decrease in the retail price as between producer and distributor."⁴⁸ With the exception of the 1929-30 agreement, which provided for the payment for surplus milk on the basis of the fluid-milk price less 2 pence per gallon, the price for surplus milk was based on quotations for imported cheese. The price per imperial gallon of surplus milk was taken as the average price per pound of the finest and fine quality grades of Canadian and New Zealand cheese, less 2 pence (approximately 4 cents) "on the assumption that 1 gallon of milk was required to make 1 pound of cheese, and 2 pence covered the cost of manufacture."⁴⁹ In the 1932-33 agreement a minimum price of 5 pence per gallon (98 cents per 100 pounds) for manufacturing milk was specified.

Fluid prices to nearby producers were appreciably higher than manufacturing prices under the agreements from October 1922 to September 1929, but more distant producers delivering to country stations obtained little advantage from selling in fluid markets. A study of milk prices in England and Wales during this period has shown "that until after 1929, at points from 100 to 150 miles from London, there was no substantial difference between liquid and manufacturing prices."⁵⁰ However, with the sharp decline in the price of cheese after 1930 and a rather stable price for fluid milk as negotiated in the agreements, a considerable spread between fluid and manufacturing prices appeared. While in the summers of 1927 to 1929 this spread for producers 100 to 150 miles from London averaged 0.7 pence per gallon, it amounted to 5.2 pence in the summer of 1932.⁵¹ The effects of this will be considered below.

DEPRESSION CONDITIONS

The difficulties which British producers experienced in the marketing of milk under the national agreements were accentuated with the deepening of the business depression after 1930 and with the sharp decline in the returns for milk used for manufacturing purposes. Under these conditions, the relatively favorable position of the producers selling under the terms of the national agreement was seriously threatened. Nominally, the terms of the agreements continued to be not unfavorable in view of the decline in the income of consumers.⁵² The existence of these relatively favorable terms, however, induced creameries and farmers, who had theretofore utilized their supplies of milk for manufacturing purposes, to enter the fluid markets. In doing this they undersold the wholesale distributors, who

⁴⁸ Economic Series No. 38, p. 179.

⁴⁹ *Ibid.*, p. 180.

⁵⁰ Cohen, Ruth L., *op. cit.*, p. 74.

⁵¹ *Ibid.*

⁵² The average price per imperial gallon for fluid milk sold under the contract permitting a 10-percent variation was 14.2 pence in the 1930-1931 agreement and 13.4 pence in the 1931-32 agreement. These compare with an average price of 14.7 pence in the 1929-30 agreement.

normally supplied retailers and bulk consumers. In many instances they accepted prices lower than those specified in the national agreement for sales by producers to distributors, and competed with the established producers and retail distributors. Manufacturers, however, had no alternative but to enter the fluid markets. With the decline in manufacturing-milk prices, certain large distributors took advantage of these conditions and reached out into the more distant producing areas where supplies of milk were normally utilized for manufacturing purposes. This competition from the fluid-milk distributors raised the price of milk in these areas above the level at which milk could be profitably converted into manufactured products. To meet this competition for their supplies, manufacturers countered by disposing of a portion of their supplies in fluid markets, underselling the regular distributors.

The position of the manufacturers was not made any easier through the operation of the national agreements. While the agreements provided for the payment of manufacturing prices for surplus milk, they made no provision for the supply of regular quantities of milk to manufacturers at manufacturing-milk prices. At the same time, farm producers of butter and cheese, finding themselves at an increasing disadvantage in comparison with producers selling in the fluid markets, attempted to dispose of their milk supplies to fluid-milk distributors at prices considerably below those specified in the agreements.

A further unfavorable factor which prevailed in the fluid-milk markets but which affected primarily the economic stability of the distributors was the increasing competition from producer-distributors. The decline in average prices to producers together with the less favorable terms of the contract which producers were forced to accept, on the one hand, and the relatively stable retail prices,⁵³ on the other hand, induced nearby producers to retail their milk directly to consumers. Another influence may have been the loss of their usual channels of disposal, since producers dealt individually with distributors. As a group, however, nearby producers profited more from the national agreements than the more distant producers did.

In order to establish a retail outlet the producer-distributor generally had to undersell the established distributor. This was one of the factors which induced distributors to evade the terms of the national agreements and to seek cheaper supplies of milk, which they had generally been able to obtain after 1930 in the more distant producing areas, as was pointed out above. An indirect effect of this was to increase supplies on the fluid markets and bring pressure on producers' prices.

⁵³ The summer and winter retail price per imperial gallon of 24 pence and 28 pence, respectively, in London remained unchanged from 1925 to 1933, except for changes in the number of months in which the lower or higher prices were to apply in each year. The average retail price was 26 pence per gallon in 1925 and 25.7 pence in 1932. The distributors' margin increased from 41.4 percent of the retail price in the 1924-25 season (October to September) to 46.4 percent in the 1931-32 season. Economic Series No. 38, p. 57.

III—THE REORGANIZATION COMMISSION FOR MILK

On April 18, 1932, the Minister of Agriculture and Fisheries, in accordance with the provisions of the Agricultural Marketing Act of 1931, established a reorganization commission, presided over by Sir Edward Grigg, to prepare "a scheme or schemes (applicable in England and Wales) for regulating the marketing of milk."⁵⁴ This was the first step towards the formulation of a marketing program for the regulation of milk, though not a necessary one, since producers' organizations could prepare programs under the Agricultural Marketing Acts. In view, however, of the complexity of the problems which might be involved, provision was made in the acts for the appointment of commissions for this purpose. The commission, in its report submitted in January 1933 and based on extended investigation, recommended organization of the milk industry under the Agricultural Marketing Acts and prepared a draft scheme to accomplish this purpose. It considered the main objects of the proposed organization to be the following:

(a) The strengthening of the position of the producers, by enabling them to negotiate as a solid body with one voice and with adequate information, and by ensuring that negotiated agreements are universally observed.

(b) The prevention of under-cutting of the liquid market, and the provision of satisfactory arrangements for the sale of milk for manufacture. This is necessary to establish a clear distinction between the two markets for milk—liquid consumption and manufacture—and to secure the return to producers of their fair share of the proceeds of all milk sold in the primary and more lucrative market.

(c) The improvement of the quality of . . . milk supplies.

(d) The stimulation of the demand for milk for liquid consumption.

(e) The recognition of the service rendered by producers who cater primarily for the liquid-milk market.

(f) The development of the manufacture of milk products.

(g) The coordination of the efforts of all concerned—producers, distributors, and manufacturers—to secure prosperity for the whole milk industry of the country, but with adequate safeguards for the interests of the consuming public.⁵⁵

The commission recommended, and its draft scheme provided for, the establishment of boards representing respectively the producers and the distributors, and of a joint council composed of these boards and of three independent members to be appointed by the Government. The commission contemplated new legislation for the organization of the distributors' board and a joint council, since the Marketing Acts authorized only producer-elected agencies. The joint council was to have power to establish minimum prices to producers for milk utilized both for fluid and manufacturing purposes, and to fix retail prices. Eleven regional pools were to be established, and returns to producers in each region, irrespective of the purpose for which their milk was used, were to be pooled. Excessive differences between pool returns arising from variations in the proportion of

⁵⁴ Economic Series No. 38, p. 8.

⁵⁵ *Ibid.*, p. 75.

milk sold at manufacturing prices were to be reduced by an inter-regional compensation levy. The scheme was to embrace all producers selling milk at wholesale, for whatever purpose, as well as producer-distributors. The commission's recommendations for a system of regional pools with interregional price compensation represented a compromise between proposals for a single national pool and proposals for a series of independent regional pools with separate price structures.

To provide for the delivery of even quantities of milk to distributors who might desire this service, the commission proposed the payment by these distributors of a level-delivery premium to be determined by negotiation individually between producers and distributors. The payment of this premium was to be separate from the prices fixed for fluid milk and the premium was not to enter into the pool. Even deliveries would thus be rewarded according to their value to distributors. At the same time, producers could undertake to deliver even quantities or not, according to their estimation of the magnitude of the premium in relation to additional costs of even production or of disposing of excess quantities of milk on their farms by conversion into manufactured products. It should be pointed out that the need of even deliveries is particularly important in England and Wales, because a large number of distributors have no facilities for handling surplus quantities of milk.

The commission recommended the inclusion of producer-distributors in the regional pool through a levy on their fluid sales so that they would share the burden of the surplus within their respective regions, although to a somewhat smaller extent than bulk producers, on the ground that their inclusion was necessary to the success of the scheme and was in their own interest. In addition, they were to pay the interregional-compensation levy and the levy for quality premiums on all milk sold by them. On the other hand, they were to be entitled to deduct from these contributions the average level-delivery premium prevailing within their respective regions if they retained their surplus milk on the farm through conversion into manufactured products or feeding to livestock. To insure the collection of all funds due from producer-distributors, the commission recommended the licensing by the producers' board of this class of handlers and the prohibition of the sale of milk by producer-distributors without a license. Through the exercise of the power to grant or refuse licenses, the board was to be enabled to collect all levies due or any fines which it might impose for the violation of its orders. In addition to provisions obligating the producer-distributor to pay the sums due to the board, the license was to contain provisions obligating the producer to furnish reports to the board and to produce books for inspection and, what was perhaps most significant, to sell milk at not less than the retail price prevailing in his district.

As a means of improving the quality of the milk supply, the commission recommended routine clinical examination of all dairy cows in the country and the establishment of a roll of accredited producers who complied with certain prescribed conditions. Milk sold by these producers was to receive a premium. Funds for this purpose were to be obtained from a levy on producers and handlers.

The commission also recommended measures to stimulate the development of the manufacture of dairy products. This was to be done partly at the expense of the fluid-milk market.⁵⁶ To render the manufacture of dairy products profitable the commission proposed that prices for manufacturing milk be paid on a realization-value basis. It further recommended substantial increases in the tariffs on dairy products, especially on cream and canned and dry milk, and the quantitative regulation of imports.⁵⁷

The commission reviewed the conditions relating to the distribution of milk in the British markets. It considered that the margin which distributors were receiving, amounting nominally to 46.4 percent of the retail price in 1931-32, was excessive.⁵⁸ The magnitude of the margins appears to have been due, partly at least, to the costly services which consumers in British markets demanded and which distributors were forced to supply. These consisted of the delivery of milk in half-pint containers, two deliveries a day, and deliveries at special times. The commission recommended the adoption of a one-delivery system, which they considered would have the effect of eliminating the demand for half-pint bottles of milk. Another factor adding to the costs of distribution, particularly in the larger markets, was the considerable duplication of delivery services by competing distributors in the same areas, a condition which also prevails in the United States.

⁵⁶ "The system of regional pooling, combined with the proposals we have made for inter-regional compensation, will have the effect of assisting, at the expense of the liquid-milk market, producers whose supplies are principally diverted to manufacture." *Ibid.*, p. 131.

⁵⁷ This proposal met with considerable criticism from those who challenged not only the desirability of further restrictions but also the need of expanding the domestic output of dairy products. See *The Economist* (London), pp. 287-8, Feb. 11, 1933.

⁵⁸ "We are satisfied that under the present organisation of the industry the farmer is not receiving a reasonable price when regard is had to the price which the consumer pays, and that it should be possible to improve the farmer's position without forcing the consumer to pay for milk at a higher rate." Economic Series No. 38, p. 95.

IV—THE PROVISIONS OF THE MILK MARKETING SCHEME AND ITS OPERATION

Using the proposals of the Grigg Commission as a basis, the National Farmers' Union formulated a milk marketing scheme under the provisions of the Agricultural Marketing Act of 1931, and submitted it to the Minister of Agriculture and Fisheries on behalf of milk producers. After a public hearing of objections to its provisions, the scheme was modified and in this form received the approval of Parliament. It became provisionally effective on July 29, 1933.

The Milk Marketing Scheme provides for and authorizes the regulation of the marketing of milk in England and Wales. As pointed out in the introduction, the provisions of the scheme have the force of law and are legally enforceable on all producers. It confers on a producers board,⁵⁹ known as the Milk Marketing Board, the necessary statutory powers to put into effect the recommendations of the Grigg Commission, including the power to fix prices; to determine the persons to whom milk may be sold by producers; to fix other terms of sale; to buy, sell, or produce milk; to manufacture dairy products; to pool the proceeds of sales by producers in each of 11 regions and to assess an inter-regional levy on all producers; and to enforce the provisions of the scheme. In practice not all powers granted have been exercised by the board. For example, the board does not operate dairy farms. The scheme does not provide, moreover, for the quantitative control of sales or production, or for the operation of the base-rating plan.

The scheme was amended in 1936 and again in 1937, but its basic provisions have remained unaffected. The provisions of the scheme have also been supplemented by the Milk Act of 1934, which is considered in part VI below.

ORGANIZATION UNDER THE SCHEME

For the purposes of the scheme, and in accordance with its provisions, the country was divided into 11 regions, known respectively as the northern, the northwestern, the eastern, the east-midland, the west-midland, the North Wales, the South Wales, the southern, the mid-western, the far-western, and the southeastern region. The board consists of seventeen members: two members elected by the producers in the northwestern region; one member elected by the producers in each of the remaining ten regions; three members-at-large elected by all producers; and two members chosen by the elected members of the board after consultation with the Market Supply Committee, a body organized under the Agricultural Marketing Act of 1933.⁶⁰

⁵⁹ The Grigg Commission's recommendations for a distributors' board and a joint council were disregarded in the draft scheme submitted by the National Farmers' Union.

⁶⁰ The members of the first board, holding office until June 30, 1934, with the exception of two members nominated by the Minister of Agriculture, were named in the provisions of the scheme.

Each region also elects a regional committee whose duty it is to consult and advise with the board on the operation of the scheme.

Under the original provisions of the scheme all producers selling milk, except those owning not more than four milk cows and selling milk at wholesale and those selling milk only to their servants for consumption in their households, were required to register with the board. The amendments of 1937 have modified these provisions to the extent that even the small producers selling milk, except those selling milk only to their servants, are required to register.

The number of producers registered with the board, and selling milk at wholesale, on March 31, 1937, was 84,610; the number of wholesale contracts registered, 91,588. The number of producer-distributors registered on that date was 64,846.⁶¹ It is probable that after the inclusion in the scheme of the small wholesale producers, in accordance with the amendments of 1937, the number of registered producers increased considerably.

The initial poll of registered producers provided for in the Marketing Acts as an essential procedure to render the scheme fully operative was taken by the board in August 1933. Of the number of producers registered, 89 percent voted, of whom 96.4 percent, owning 96.6 percent of the number of cows, favored the scheme. It came into full operation on October 6, 1933.

PREScription OF CONTRACTS BY MILK MARKETING BOARD

Producers selling milk at wholesale, though continuing to negotiate and contract individually with distributors, creameries, or cheese factories for the sale of their milk as before the adoption of the scheme, must do so according to the terms of the contracts specified by the board. The board is a party to all contracts, and all payments by purchasers must be made to the board, which returns a uniform pooled price to all producers within the same region. No milk may be sold at wholesale by a producer except through a contract registered with the board. Producers who fail to find a purchaser upon any type of contract may sell their milk to the board, for which they may be charged a commission, the board either reselling the milk to distributors or converting it into manufactured products. For the latter purpose, and to accommodate producers who are not conveniently located to country stations or factories, the board has acquired a number of plants. With the exception of the reselling of milk acquired from producers unable to find a purchaser, the board does not act as a selling agency.

DISTRIBUTORS' BUYING PRICES

Three structures of prices prevail under the Milk Marketing Scheme: (1) prices paid by distributors, varying according to the purpose for which milk is used; (2) prices or returns received by individual producers, uniform in each of 11 regions but varying as between regions; and (3) prices paid by consumers, varying as between regions and different-sized localities. In this and in the suc-

⁶¹ *Report of the Milk Marketing Board on the Working of the Milk Marketing Scheme for the Year Ended March 31, 1937*, p. 2, 1937.

ceeding section, prices paid by distributors are considered. Prices received by producers are treated in the section on pooling operations and returns to producers, while prices paid by consumers are considered in the section on resale prices.

The power to fix distributors' buying prices is probably the most important one conferred on the Milk Marketing Board under the scheme. The board is empowered, after consultation with representatives of distributors and manufacturers, to prescribe for each region, as a part of the terms of the contracts for the sale of milk, "the prices at, below, or above which, or the method of arriving at prices at which milk may be sold, and such prices . . . may vary in accordance with the purposes for which the purchaser agrees to use or resell milk." The board is also empowered to prescribe such terms as it "may deem necessary for securing that the purchaser shall not use or resell the milk for any purposes other than those specified in the contract, except upon the terms that the purchaser shall pay such price as may be determined as the price for milk to be used for such other purposes." Actually, all wholesale contracts stipulate the payment of fluid prices for all deliveries. Provision is made, however, for rebates by the board to distributors purchasing substantial quantities of milk⁶² on that portion of the supply utilized in nonfluid uses. The amount of the rebate varies with the use of the milk. For this purpose, the board has power to inspect the distributors' books and records showing the disposition of milk received from producers.

The power of the board to prescribe buying prices of milk was qualified for the first year of operation in that the board had to receive the approval of the representatives of purchasers to such prices. In the event of disagreement, the determination of the scale of prices was to be left to the decision of government-appointed arbitrators. Recourse was had to these provisions when negotiations between the board and the distributors for the first year's prices failed.

The distributors' buying prices for fluid milk fixed by the arbitrators for the first and second contract periods, October 6, 1933, to March 31, 1934, and April 1, 1934, to September 30, 1934, respectively, are shown in table 2, as are also the prices prescribed by the board, and agreed to by the distributors, for the third contract period, October 1, 1934, to September 30, 1935. Prices fixed for subsequent periods are considered in part V. Prices for milk for manufacturing purposes or the method of arriving at these prices, during the first three contract periods, are shown in table 3. These were determined by the government-appointed arbitrators for the first two contract periods and by the board for the third period. Higher prices for milk for fluid consumption were fixed by the arbitrators for the southeastern region than for the other regions for the first two periods, but the board has fixed uniform prices in all regions and for all markets since then. This action by the board has meant a radical departure from the competitive price structure which prevailed in England and Wales prior to the introduction of the scheme, under which prices in the smaller consuming areas were generally less than

⁶² In the 1937-38 contract the board limited the right to rebates to distributors purchasing more than a daily average of 500 gallons and manufacturing more than a daily average of 300 gallons of milk, except as it might otherwise agree.

London prices by the difference in transportation costs from producing areas to London and to these areas.

TABLE 2.—*Distributors' buying prices of fluid milk under the Milk Marketing Scheme, 1933-34 and 1934-35, f. o. b. distributor's city railway station or plant*

Month	October 1933 to March 1934				April to September, 1934				October 1934 to September 1935	
	Southeastern region		All other regions		Southeastern region		All other regions		All regions	
	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds¹</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds¹</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds¹</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds¹</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds¹</i>
October.....	16	3.14	15	2.94	-----	-----	-----	-----	16	3.14
November.....	16	3.14	16	3.14	-----	-----	-----	-----	16	3.14
December.....	17	3.34	16	3.14	-----	-----	-----	-----	17	3.34
January.....	17	3.34	16	3.14	-----	-----	-----	-----	17	3.34
February.....	16	3.14	16	3.14	-----	-----	-----	-----	17	3.34
March.....	14	2.75	14	2.75	-----	-----	-----	-----	17	3.34
April.....	-----	-----	-----	-----	13	2.55	12	2.36	16	3.14
May.....	-----	-----	-----	-----	12	2.36	12	2.36	12	2.36
June.....	-----	-----	-----	-----	12	2.36	12	2.36	12	2.36
July.....	-----	-----	-----	-----	13	2.55	12	2.36	13	2.55
August.....	-----	-----	-----	-----	13	2.55	12	2.36	13	2.55
September.....	-----	-----	-----	-----	13	2.55	12	2.36	16	3.14
Averages: Oct.-March.....	16	3.14	15½	3.04	-----	-----	-----	-----	16½	3.24
April-Sept.....	-----	-----	-----	-----	12½	2.49	12	2.36	13½	2.68

¹ Converted to United States currency at par of exchange, i. e., £1=\$4.8665.

From United Kingdom Ministry of Agriculture and Fisheries, and Scottish Office, *Report on Agricultural Marketing Schemes*, p. 45, 1935.

TABLE 3.—*Distributors' buying prices of milk utilized for manufacturing purposes under the Milk Marketing Scheme, 1933-34 to 1934-35, f. o. b. distributor's plant or country station*

Milk manufactured into —	October 1933 to March 1934		April to September, 1934		October 1934 to September 1935	
	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds²</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds²</i>	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds²</i>
Condensed milk.....	6	1.18	6	1.18	6	1.18
Milk powder.....	6	1.18	4½	.88	4½	.88
Fresh cream.....	9	1.77	7½	1.47	7½	1.47
Tinned cream.....	6	1.18	5	.98	5	.98
Chocolate.....	8	1.57	8	1.57	8	1.57
Sterilized milk for export.....	-----	-----	6	1.18	6	1.18
Soft curd cheese and cream cheese.....	-----	-----	-----	-----	7½	1.47
Ice cream.....	-----	-----	-----	-----	7½	1.47
Other milk products.....	9	1.77	9	1.77	9	1.77

¹ The price per imperial gallon for milk manufactured into butter, cheese, and condensed milk for export was taken as the average price per pound for the previous month of finest white Canadian cheese and finest white New Zealand cheese less a sum of 1¼ pence (3.5 cents). (The Milk Marketing Board reserved the right to vary this formula for ascertaining the price of cheese during the period April to September, 1935. In accordance with this reservation, Canadian cheese was omitted from the formula during the period April to July, 1935. During 1934-35 a minimum price of 4 pence per gallon was operative for milk manufactured into condensed milk for export.)

² Conversion to United States currency at par of exchange, i. e., £1=\$4.8665.

³ In March 1934 the prices of milk for fresh cream and tinned cream were reduced by Government arbitrators to 7½ and 5 pence, respectively.

From United Kingdom Ministry of Agriculture and Fisheries, and Scottish Office, *Report on Agricultural Marketing Schemes*, p. 45, 1935.

Seasonally varying prices for fluid milk have been fixed under the scheme by both the arbitrators and the board, as is evident from table 2. During the first year of the scheme, average prices from October to March were 26 percent higher than from April to September in the southeastern region and 29 percent higher in other regions. During the second year of the scheme, the variation for all regions was 21 percent; during the third and fourth years, 26 percent; and during the fifth year, 25 percent. In general, the seasonal price relationships that prevailed prior to the adoption of the scheme have been substantially maintained.

The establishment of fluid-milk prices that vary on a seasonal basis results in a closer approximation to a competitive price structure than is the case with uniform prices throughout the year, since higher prices are fixed during the period of light supplies and lower prices during the season of heavy supplies. As compared with uniform prices, which prevail to some extent in the United States, seasonal variation in fluid prices benefits the even and inverse producers.⁶³ With a given annual output and a given total income from that output, the even and inverse producers receive a larger share of that income than is the case with nonvarying seasonal prices. In this respect, the effect of seasonal variation in fluid prices is broadly similar to that of a base-rating plan designed to distribute the burdens of the surplus among the producers rather than to price milk to handlers according to their use of the milk.⁶⁴

It is to be noted from table 3 that the method of pricing milk for manufacturing purposes under the scheme has involved a formula price in the case of milk utilized for some products and specific prices in the case of milk utilized for others. For milk going into butter, cheese, or condensed milk for export the price has been determined by a formula in which the value of the milk per gallon has been fixed by the average price per pound of imported cheese in the previous month less an allowance of $1\frac{3}{4}$ pence per gallon for manufacturing costs. (Note that the butterfat content of the milk has not entered into the computation.) On the other hand, distinct prices were fixed for milk used for all other manufactured products, although these prices were much lower than the prescribed buying prices for fluid milk. The differences in the pricing methods followed in the case of milk utilized in the two groups of manufactured products has been due to the fact that the lower-valued group competes with foreign supplies either in home markets or abroad, while the higher-valued group either does not compete at all or only to a limited degree. "Voluntary" import restrictions of a quantitative nature have been adopted in the case of those higher-valued products which are imported into Great Britain.

With the exception of the requirement that handlers must be consulted before buying prices are prescribed, the scheme makes no provision for any method to be used by the board in arriving at the level of prices to be fixed. As stated above, buying prices for the first year of operation were determined by arbitrators after the board

⁶³ Inverse producers are those having a counter-seasonal production curve; that is, they produce at a high rate during the period of lowest output for the industry as a whole.

⁶⁴ For a more complete discussion of the base-rating plan, see Gaumnitz, E. W., and Reed, O. M., *Some Problems Involved in Establishing Milk Prices*, Agricultural Adjustment Administration, Marketing Information Series, DM-2, September 1937.

and the distributors' representatives failed to reach an agreement. For the second year of operation the board sought an increase in the buying prices. To this the distributors agreed, having secured at the same time an increase in their resale prices. For the third year of operation, October 1935 to September 1936, the board sought a further increase but refused to grant an increase in resale prices. This action was made the subject of an investigation by the Committee of Investigation, after appeal by the distributors to the Minister of Agriculture and Fisheries. The board justified its determination of higher prices on the basis of the cost of producing milk for fluid purposes. (See part V.)

In conferring statutory authority on a producers' board to fix prices and other terms of sale, the scheme departed radically from the recommendations of the Grigg Commission, which had proposed that this power be reserved to a joint council consisting of representatives of producers and distributors and of independent members representing "the wider interests of the consumer and the nation." It had been the aim of the commission's proposals to strengthen the position of producers so as to enable them to negotiate as a body and to assure observance of the negotiated contracts, but, at the same time, it had recommended that the ultimate power to fix prices should rest with the joint council, and, in the case of disagreement within the council, with the independent members. The granting of price-fixing powers to a producers' board, which had the effect of creating a statutory monopoly (except for the first year of operation of the scheme), with inadequate safeguards against abuse of its powers, clearly exceeded the intentions of the Grigg Commission. The scheme has, in substance, provided for the regulation of milk marketing by a producers' board rather than for the organization of producers into a single body as a part of a wider system of regulation. In fact, the powers granted to the board provide for the control not only of prices paid to producers, but also of the retail prices received by distributors, without any provision for participation by consumers in the exercise of this power or for representation of their interests before retail prices are fixed.

EFFECT OF THE SCHEME ON DISTRIBUTORS' BUYING PRICES

A comparison of prices paid for fluid milk by distributors under the scheme with those specified in the Permanent Joint Milk Committee agreement for the year preceding the inauguration of the scheme indicates that scheme prices were only slightly higher in the southeastern region and lower in other regions during the first year of operation. During the second year, however, prices in all regions were higher than those specified in the agreements. Prices from October 1933 to March 1934 under the scheme averaged 16 pence per gallon (\$3.14 per 100 pounds), f. o. b. distributor's city railway station or plant, for the southeastern region, and 15½ pence (\$3.04 per 100 pounds), in all other regions, as compared with 15⅝ pence (\$3.11 per 100 pounds), paid from October 1932 to March 1933 under the agreement contract specifying the payment of these prices for an average of 75 percent of annual deliveries of milk and manufacturing prices for the remainder. The average price of 12⅔ pence per gallon (\$2.49 per 100

pounds) in the southeastern region and of 12 pence (\$2.36 per 100 pounds) in other regions, during the summer months April to September, 1934, compares with an average agreement price in the previous summer of 12½ pence (\$2.39 per 100 pounds). Prices under the scheme during 1934-35, uniform over all regions and averaging 16½ pence (\$3.24 per 100 pounds) from October to March and 13⅔ pence (\$2.68 per 100 pounds) from April to September, were higher than those in the first year under the scheme. They were increased above these levels in 1935-36 and again in 1937-38. (See part V.)

While distributors' buying prices were only slightly raised during the first 2 years of operation of the scheme, in relation to the terms of the national agreements, it is to be remembered that a large number of producers, especially those not selling in the London market, were never able to secure the terms of the agreements in the sale of their milk. In the matter of fluid-milk prices the board, therefore, secured definite advantages to producers as a class as compared with their position prior to the initiation of the scheme. But perhaps the most significant result in this respect was that the decline of fluid-milk prices to manufacturing-milk levels which seemed to threaten English producers was averted.

In the case of the terms of payment for milk for manufacturing purposes, direct comparison with the Permanent Joint Milk Committee agreements is difficult, though returns to producers as a class, inclusive of the Government subsidy, appear to have been increased. Certainly this is true in relation to returns that would have prevailed under competitive conditions. Under the agreements a uniform price based on quotations for imported cheese was paid for all milk in excess of fluid-milk sales, though this price was limited by a minimum of 5 pence per gallon (98 cents per 100 pounds) in 1932-33. On the other hand, the prices paid under the scheme for milk utilized for other than fluid purposes varied as between uses. Generally, the prices for milk used for butter, cheese, and condensed milk for export were lowest and were related to quotations for imported cheese.⁶⁵ Prices for milk used for other products were fixed at definite levels and proved to be higher than returns related to cheese prices. Also, the deduction for manufacturing costs for milk utilized for butter, cheese, and condensed milk for export was reduced by the board from 2 pence (4 cents) per gallon, which prevailed under the agreements, to 1¾ pence.

Payments by distributors for milk used for butter, cheese, and condensed milk for export averaged 3.6 pence per gallon (71 cents per 100 pounds) from October 1933 to September 1934 and 3.8 pence (75 cents per 100 pounds) from October 1934 to September 1935, while realizations for all milk used for manufacturing purposes averaged 4.96 pence per gallon (97 cents per 100 pounds) during the former period and 4.81 pence per gallon (94 cents per 100 pounds) during the latter period. The low prices for milk utilized in the above-mentioned products were supplemented by a Government subsidy which brought returns for all manufacturing milk up to 5.49 pence and 5.64 pence per gallon (\$1.08 and \$1.11 per 100 pounds), respectively.⁶⁶ The nature of the Government subsidy is considered in part VI.

⁶⁵ For the 1935-36 and later contracts the price for milk used for manufacture into butter was based on quotations for imported butter.

⁶⁶ United Kingdom Ministry of Agriculture and Fisheries, and Scottish Office, *Report on Agricultural Marketing Schemes for the Year 1935*, p. 40, 1936.

It is to be noted that, in spite of extremely low prices for milk in the lowest valued manufacturing uses and the availability of the entire supply of milk in England and Wales for fluid purposes, the board was able to maintain a relatively high level of fluid-milk prices. The difference between the average price for fluid milk and the average payment for milk used for manufacturing, not including the Government subsidy, amounted to 9.37 pence per gallon (\$1.84 per 100 pounds) in the southeastern region and 8.79 pence (\$1.73 per 100 pounds) in other regions in 1933-34, and to 10.27 pence (\$2.02 per 100 pounds) in all regions in 1934-35. Since the transportation charges applicable to milk utilized for fluid consumption are on the whole greater than those applicable to milk used for conversion into manufactured products, the differences between returns to producers as a class for milk used for fluid consumption and for that utilized for manufacturing purposes were somewhat less than the figures above indicate.

LEVEL-DELIVERY PREMIUMS

The board was empowered by the scheme to prescribe "in the case of a contract for the delivery of milk in specified quantities at specified times, the additional price (. . . called level-delivery premiums) to be paid by the purchaser for such services," the scheme disregarding in this respect the Grigg Commission's recommendation to leave the determination of these premiums to individual negotiation.⁶⁷ The contracts prescribed by the board have provided for the purchase by distributors of the entire output of milk of a producer or for the output of a specified number of cows, or for a specified quantity of milk to be delivered daily, with further provision for permissible variations from the specified quantity. Premiums fixed by the board have varied according to the extent of the permissible variation.

The rate of premium specified by the board for the first contract period, extending from October 6, 1933, to March 31, 1934, was 1 penny per imperial gallon (19.6 cents per 100 pounds) for a variation of 5 percent from the fixed quantity and one-half penny for a variation of 10 percent. In the contract for 1934-35, provision was made for only one level-delivery premium—that of one-half penny for a 10-percent variation—but producers were permitted to contract to deliver milk on a basis of less than a 10-percent variation, provided they received an additional premium. A wider scale of premiums was prescribed in the later contract periods. Thus, in the 1937-38 contract, provision was made for three premiums. A premium of one-half penny per gallon was fixed for the delivery of quantities varying not more than 10 percent from a specified quantity, and of 1 penny per gallon for the delivery of the same quantity each day. For the delivery of quantities to meet the day-to-day requirements of the buyer, a premium of $1\frac{3}{4}$ pence per gallon was specified for daily

⁶⁷ The board was also authorized to prescribe "the additional prices to be paid for any special services to be rendered" by the producer, but it has not exercised this power and the amount of special-service premiums, in those cases where special services have been contracted for, has been determined in each case by individual negotiations between producer and buyer.

consignments of 10 gallons; of 2 pence, or the difference between the wholesale and retail price less 6 pence, whichever was greater, for daily consignments of 6 to 10 gallons; and of the difference between the wholesale and retail price less 4 pence for daily consignments of 1 to 6 gallons.

In the case of contracts for the delivery of a specified quantity each day or of quantities varying not more than 10 percent from the specified quantity, provision was made for penalties for deliveries below the specified quantity, or the allowed limit of variation, as the case might be. These penalties could take one of two forms, as mutually agreed upon by the producer and the buyer and specified in the contract, but the penalty provision adopted applied throughout the whole contract period. The producer could either lose the premium on all of his milk for the day on which his deliveries were short, or he could pay to the buyer 2 pence on each gallon by which the actual delivery was below the specified quantity, or the permissible limit of variation, as the case might be. In the event of deliveries in excess of the specified quantity, or of the permissible limit of variation, the buyer might reject or accept the excess. If he accepted the excess, he was not required to pay the level-delivery premium on it. No provision was made for penalties for deliveries below or above the designated quantities in the case of those contracts providing for deliveries to meet the day-to-day requirements of the buyer.

The type of contract under which milk is sold, that is, whether it provides for the delivery of the whole output or for deliveries varying from a specified quantity, is supposed to be determined in each case by mutual agreement between the producer and the distributor. In practice, however, the choice has rested with the buyers. The number of level-delivery contracts declined from 15,120 in the first year of operation of the scheme to 13,554 in the second year.⁶⁸ Producers have complained that they have been unable to secure the level-delivery premium. The competition among producers for contracts with distributors in nearby markets, arising from the fact that producers bear transportation costs, has caused some producers to offer level-delivery or other services without demanding any corresponding remuneration in order to obtain such a contract, although under the provisions of the scheme this is forbidden. In any case, the refusal of distributors to accept all level-delivery contracts offered has resulted in their securing some even deliveries gratis.

The premiums for level deliveries, as well as the premiums for other special services, although paid by the distributors in the first instance to the Milk Marketing Board, are credited to the producers concerned and do not enter into the pool. However, in those instances where a seasonal producer selling on a level-delivery contract disposes of his surplus through a non-level-delivery contract with a second distributor or with the board, the board is empowered to retain as much of the level-delivery premium as it thinks appropriate, the sums to be applied to its general funds. During the first 4 years of operation of the scheme, however, the board has apparently not found it feasible to enforce this provision.

⁶⁸ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 39, 1936.

TRANSPORTATION ARRANGEMENTS AND FREIGHT POOLS

Important changes were made in the system of transportation charges in the 1937 amendments to the scheme, these particular changes becoming effective on October 1, 1937. They provide for uniform transportation deductions in each region from payments to producers on milk delivered to country stations and on milk utilized primarily for manufacturing purposes, wherever delivered. These deductions may vary between regions. The amendments have not affected the position of the buyers, however. As before their adoption, buying prices for fluid milk are f. o. b. the distributor's city railway station or plant and are uniform for all markets regardless of size or proximity of market to a producing area. Buying prices for milk used for manufacturing purposes are f. o. b. the buyer's plant or country station. Neither have the amendments affected the previous position of direct shippers of milk utilized chiefly for fluid consumption; as before, the producers concerned are individually responsible for their own transportation costs. If not paid by these producers in the first instance, these costs, as well as collection charges, when incurred by the distributors, may be deducted by the distributors from their payments to the board. The board makes corresponding deductions from the pool payments to the producers concerned.

As has been indicated, the amendments relate to transportation costs on milk delivered to country stations and on milk utilized for manufacturing purposes. Prior to the adoption of these amendments, the board deducted from a producer's pool returns, for milk delivered at country stations and utilized for fluid consumption, the actual cost of transporting the milk to the market, or the average cost where the station served more than one market, and the amount of the transit-risk charge. The latter charge covered country-station services and risks involved in shipping milk from the country station to the market.⁶⁹ The distributor made corresponding deductions from payments to the board.⁷⁰ In the case of milk delivered to a country station and utilized for manufacture into dairy products, producers were charged by the board with the transit-risk charge and with what was known as a "standard freight charge," this being the cost of transporting milk from the country station to the most distant fluid market supplied by it, even though the milk was not transported but was converted at the station into manufactured products. On the other hand, where milk was delivered by a producer to a factory or plant where milk was used wholly for manufacturing purposes, the board deducted from the pool payments to producers a charge known as a "special transport deduction" equal

⁶⁹ In the first contract period the allowance for transit risks was fixed at one-half penny per imperial gallon (9.8 cents per 100 pounds). In the second contract period it was fixed at one-half penny if the milk was subsequently shipped to the southeastern region, and 1 penny if shipped elsewhere; while in the third contract a uniform allowance of one-half penny was prescribed. United Kingdom Ministry of Agriculture and Fisheries, and Scottish Office, *Report on Agricultural Marketing Schemes*, p. 46, 1935.

⁷⁰ The purchase of milk by distributors for delivery at a country station on what is known as a "depot" contract, in contrast with a "direct" contract, was, and still is, limited by the Milk Marketing Board to distributors operating stations approved and licensed by the board. Only in this case have distributors been permitted to deduct transportation and transit-risk charges. All other sales to purchasers have been made on a "direct" contract.

to the transit-risk charge plus the average freight cost incurred by other producers in the same region in shipping fluid milk to consuming centers. Some allowance was made, however, if the collection costs for this milk exceeded the average collection costs for milk shipped by rail to fluid markets, as in the case of the shipment of milk to a distant town factory. Where a portion, less than 70 percent, of the milk delivered to a plant was sold locally for fluid consumption and the remainder converted into manufactured products, the special transport deduction was correspondingly reduced. Where more than 70 percent was used for fluid purposes, no deduction was made. The purpose of the special freight charge and the special transport deduction was to place all producers on an equitable basis insofar as transportation charges were concerned. Without such deductions producers shipping milk for manufacturing purposes to a nearby plant or station would have had an advantage over producers shipping milk for fluid consumption to a distant market, since all producers in the same region received the same pool price. These deductions from producers' payments were credited to the respective regional pools and served to augment the income of the pools from the sale of milk. They were, therefore, in the nature of an adjustment between producers and were an essential part of the system of equalization.

While designed to prevent producers whose milk was utilized for manufacturing purposes from securing an advantage over other producers, the system of special deductions resulted in practice in undue burdens on these producers and created inequities among them. At the same time, producers whose milk was utilized chiefly for fluid purposes, but who shipped through country stations, found themselves in an inequitable position as compared with some similar producers as well as with producers shipping directly to fluid markets.⁷¹ These inequities were due to three factors. First, freight charges payable by producers shipping to neighboring stations varied considerably in some instances. Second, producers obliged to deliver their milk to a country station or factory were assessed with substantial deductions, while neighboring producers selling milk to nearby distributors incurred low freight costs. Third, since producers were assessed on their milk used for manufacturing purposes and delivered to a country station the maximum "standard freight charge," and on milk used for fluid purposes only the actual freight cost, which was generally lower, the deductions from payments to producers varied with the proportion of the supplies utilized for fluid purposes by each country station.

The amendments to the original transportation provisions were designed to mitigate the inequities noted above by providing for uniform transportation deductions in each region on country-station milk and on milk used chiefly for manufacturing purposes. Under these amendments the Milk Marketing Board prescribes from time to time for each separate region a "standard freight deduction," applicable to all milk sold by producers in the region and shipped to country stations or to manufacturing plants. The deduction does

⁷¹ The scheme also created inequities among direct shippers themselves, which the amendments have not remedied. These are considered in part VII in connection with the report of the Cutforth Commission.

not apply to milk intended primarily for fluid consumption and shipped directly by producers to consuming centers, the producers involved being individually responsible for their own freight expenses, as was pointed out above. The imposition of the standard-freight deduction on milk shipped to a country station is based, of course, on the principle that producers should bear the transportation costs applicable to their milk. The assessment of the deduction on milk not reshipped from the country station but converted into dairy products at the station is presumably designed to prevent country-station shippers from gaining an advantage over direct shippers of milk utilized for fluid consumption, since the latter ship all their supplies to the market. The imposition of the deduction on milk shipped to a manufacturing plant is based on the fact that dairy-products factories in England and Wales are situated for the most part in the surplus-producing areas in close proximity to country stations shipping milk to distant markets. In these circumstances the board apparently considers it essential that factory shippers should pay the same transportation deduction as country-station shippers. In those cases where a producer ships milk to a distant factory the board is empowered to reduce the standard-freight deduction on his milk. The amount of the deduction may also be reduced if a producer ships milk to a manufacturing plant distributing some milk for fluid consumption.

The proceeds of the standard freight deduction are credited to regional freight pools established for each of the 11 regions. The funds in each pool are available for meeting the costs of transporting milk for fluid consumption from country stations to consuming areas, including transit-risk charges, that is, for meeting deductions by distributors from payments to the board for these costs. The amendments also provide, however, that the board may transfer any surplus or deficit in any regional freight pool to the corresponding regional producers' pool. At the same time, the power of the board to fix the amount of the standard freight deduction is unqualified. It is not incumbent upon the board to fix the rate of the standard freight deduction at a level that just meets the actual freight costs which the freight pools are called upon to meet. The board is in a position to fix it at such a level that a surplus or deficit will accrue to the regional pools.

In announcing the first schedule of the rates of the standard freight deduction fixed by the board, ranging from 1.10 pence per gallon (21.6 cents per 100 pounds) in one region to 1.65 pence per gallon (32.4 cents per 100 pounds) in some other regions, the September 1937 issue of the board's official publication stated as follows: "Of this money the board will utilize such sums as are necessary to carry liquid milk to market, then the remainder will pass into the regional price pools to assist pool prices."⁷² The rates of the standard freight deduction probably will be changed from time to time by the board to bring about what it considers to be an equitable position as between the various groups of producers. In this connection, it is to be borne in mind that, because of the system of interregional compensation, it is to the interest of the producers in the fluid-milk regions to have producers in the manufacturing-

⁷² *The Home Farmer*, 4(9) : 8, September 1937.

milk regions pay large transport deductions. This leaves a large balance for transfer into the regional pool and reduces the amount of the interregional compensation levies, which have been fixed since February 1935 at a level designed to prevent an annual average variation of more than 1 penny per gallon between the highest and lowest regional pool payments. In fixing the standard freight deductions, the board is also attempting to reduce the transportation costs of country-station and factory suppliers, which prior to the introduction of the 1937 amendments were unduly heavy.⁷³

POOLING OPERATIONS AND RETURNS TO PRODUCERS

The provision for the pooling of the proceeds from the sale of milk at wholesale by registered producers, irrespective of the purpose for which the milk is used, is a fundamental principle of the Milk Marketing Scheme. This has been accomplished, in accordance with the recommendations of the Grigg Commission, through the system of 11 regional pools, operated by the board and rendered interdependent to some degree by an interregional price-compensation arrangement whereby a levy has been imposed on the fluid sales of the respective regions, while payments have been granted on their sales of manufacturing milk. The purpose of this, as stated in the scheme, is "to secure that the pool prices do not vary unduly as between the several regions by reason of the fact that different quantities of milk sold for purposes other than liquid consumption are produced in different regions." The regional pool price is the price received by the producer for milk sold through the board and represents the average rate of return obtained by pooling the proceeds from all sales, Government subsidies, contributions by producer-distributors, and funds from other sources.

The rate of the interregional compensation levy, which is assessed on all fluid sales entering the pools, is determined by the Milk Marketing Board. The board is empowered to distribute the proceeds of the interregional compensation levy among the various pools in such a manner as it thinks best, but distribution has been, except for deductions for an interregional-compensation reserve during the first months of operation, in proportion to the volume of manufacturing milk handled by each pool. The interregional-compensation levy was fixed at 1 penny per gallon (19.6 cents per 100 pounds) on fluid sales from October 1933 to September 1934 but has varied since then. The policy of the board since February 1935 has been to fix the levy at such a level as will limit the variation between annual average pool prices for different regions to approximately 1 penny per gallon.⁷⁴ With an increasing proportion of sales going into manufacturing uses this policy has resulted in considerably higher levies, especially in the months of flush production. These levies reached 2½ pence per gallon (49.1 cents per 100 pounds) in April 1935 and 1936. Since the board consists of regional representatives with conflicting interests, the determination of the monthly rate of levy and the establishment of the policy to limit the annual variation between pool

⁷³ "It is the declared intention of the Board to utilize the Transport Amendments, firstly, to reduce the deduction made upon producers who are at present called upon to bear the heaviest transport charges and, secondly, to equalize within a region the deductions made from the accounts of producers who are sending to depots and factories." *The Home Farmer*, 4(8): 11, August 1937.

⁷⁴ *The Home Farmer*, 2(6): 6, June 1935.

prices to 1 penny per gallon probably represent a compromise among the board members. It would be evidently to the advantage of those regions with a high proportion of their sales in fluid uses to secure as low a levy as possible, while a high levy would be to the advantage of the manufacturing regions, since the proceeds of the levy are distributed among the regions in proportion to the sales of milk in manufacturing uses in each regional pool.

The returns for milk sold for other than fluid purposes are pooled throughout the area of the scheme irrespective of whether such milk in any region was sold in the higher- or lower-valued manufacturing uses. The proceeds from this milk are divided, in accordance with the provisions of the scheme, among the regional pools proportionately to the amount of manufacturing milk handled through each pool.

With the exception of payments for level-delivery, special-service, and quality premiums, which are credited directly to the accounts of producers, each pool is credited by the board with the proceeds of the sale of fluid milk in its region, and with its share of the proceeds from manufacturing milk and from the interregional compensation levy. These sums are supplemented by the subsidies of the Government on manufacturing milk, by such surplus sums from the corresponding regional freight pool as are transferred by the board, and by payments from producer-distributors. Each pool is debited with a levy for general expenses of the board, liabilities, and reserves, amounting usually to one-fourth penny per gallon of milk; with the interregional compensation levy, and with the quality-premium levy (see quality-improvement program below); with the corresponding freight-pool deficit, if any; and with deductions for payments to farm cheese makers. (See part VI.) The net sum standing to the credit of each regional pool is divided by the total quantity of milk handled by that pool; the result is the pool price or the average rate of return to producers for all milk sold through the board irrespective of the use of the milk. The weighted average regional pool prices for the marketing periods October 1933 to September 1934, and October 1934 to September 1935, are shown in table 4. The

TABLE 4.—*Weighted average regional pool prices under the Milk Marketing Scheme, 1933-34 and 1934-35*¹

Region	October 1933 to September 1934		October 1934 to September 1935	
	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds</i> ²	<i>Pence per imperial gallon</i>	<i>Dollars per 100 pounds</i> ²
Northern.....	11.90	2.34	12.10	2.38
Northwestern.....	11.70	2.30	11.95	2.35
Eastern.....	12.22	2.40	12.45	2.44
East-midland.....	11.89	2.33	12.18	2.39
West-midland.....	11.34	2.23	11.48	2.25
North Wales.....	11.33	2.22	11.53	2.26
South Wales.....	11.70	2.30	12.06	2.37
Southern.....	12.26	2.41	12.50	2.45
Mid-western.....	11.55	2.27	11.59	2.28
Far-western.....	11.29	2.22	11.39	2.24
Southeastern.....	12.75	2.50	12.78	2.51
Weighted average.....	11.83	2.32	11.99	2.35

¹ Exclusive of premiums to producers or of deductions for transportation costs or transit-risk charges.

² Converted to United States currency at par of exchange, i. e., £1=\$4.8665.

From United Kingdom Ministry of Agriculture and Fisheries, *Milk: Report of the Reorganisation Commission for Great Britain*, Economic Series No. 44, pp. 336-37, 1936.

weighted average price was 11.83 pence per gallon (\$2.32 per 100 pounds) for the first period, and 11.99 pence (\$2.35 per 100 pounds) for the second period. The region having the highest weighted average price in both periods was the southeastern while the west-midland had the lowest weighted average price. Average returns to producers rose 0.16 pence per gallon during the second year of the scheme, as compared with a rise of 0.75 pence in the average contract buying price in the southeastern region and of 1.33 pence in all other regions. (See table 2.) The relatively smaller increase in average returns was due to an increase in the proportion of manufacturing milk sold during the second year.

The weighted-average pool price of 11.99 pence per gallon for 1934-35 compares with an average contract buying price for fluid milk of 15.08 pence in the same period. (See table 2.) However, when account is taken of the fact that relatively larger quantities were sold at the seasonally lower summer prices, the average fluid price is reduced to 14.87 pence. The difference between this price and the average pool price is accounted for thus in an official report:

The rebates for manufacturing milk represented a deduction from the liquid price of 2.95 d. per gallon; the lower price received for milk supplied to school children accounted for a further deduction of 0.22 d.; the levy for the board's expenses and for the provision of reserves amounted to 0.18 d. and the amount required for the payment of a premium on accredited milk to 0.06 d.; other deductions in respect of publicity, the rebates to farmhouse cheese makers and the compensation paid to the Scottish Milk Marketing Board amounted to 0.1 d.⁷⁵ The credits received were: 0.24 d. in respect of producer-retailers' contributions, 0.29 d. in respect of the repayable advances under Sections 1 to 3 of the Milk Act, 1934 [providing for subsidies on manufacturing milk], and 0.1 d. in respect of payments received under Section 11 [providing for Government payments for increasing the demand for milk]. The net deduction from the average wholesale regional price was, therefore, 2.88 d. per gallon, giving an average weighted pool price of 11.99 d.⁷⁶

It should be pointed out in this connection that the pool prices do not represent net returns to producers, since, on the one hand, producers incur collection, transportation, and transit-risk charges, either directly or through a deduction by the board, while, on the other hand, they may receive the level-delivery, graded-milk, and quality premiums, as well as any additional premium for special services. The average transportation charge during the contract period 1934-35 amounted to 1.83 pence per gallon throughout the area of the scheme. The average premium received during the same period, excluding quality premiums, amounted to 0.12 pence per gallon. On this basis, the average return amounted to 10.28 pence per gallon (\$2.02 per 100 pounds), not allowing for other premiums or charges.⁷⁷

It appears that the effect of the intraregional pooling operations is to distribute the burden of the lower returns from milk used for manufacturing purposes equally among all bulk producers within each region, or, stated in another way, to spread the benefits of the higher prices obtained for fluid milk among these producers. The interregional-compensation operations, on the other hand, are de-

⁷⁵ Under an agreement with the Scottish Milk Marketing Board the English board compensates the Scottish board, by contributions to its pool, for withholding milk produced in its area which would otherwise be shipped into England and Wales.

⁷⁶ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 42.

⁷⁷ *Ibid.*, p. 43.

signed to shift a part of the lower unit pool returns in the regions disposing of a large proportion of their output in manufacturing uses to producers in other regions. Taken together these equalization operations secure to producers, who prior to the scheme obtained only manufacturing prices for milk, part of the benefits from higher prices on fluid milk. They result, in effect, in a subsidy to producers of milk used chiefly for manufacturing purposes by producers selling in fluid markets, and while the former have benefited from this, it has been at the expense of the latter. This effect of the scheme has elicited a considerable amount of protest on the part of producers in the southeastern region, which serves the London market.⁷³ In this region only 2.8 percent of the wholesale sales during the first year of operation were utilized for manufacturing purposes as compared with 49.8 percent in the far-western region and an average of 26.9 percent throughout the area of the scheme. During the second year of operation the proportion of milk manufactured amounted to 4.7 percent in the southeastern region, 61.2 percent in the far-western region, and an average of 35.3 percent in all regions. (See table 5.)

TABLE 5.—*Sales of milk on wholesale contracts in each region under the Milk Marketing Scheme, 1933-34 and 1934-35*

Region	October 6, 1933, to September 30, 1934				October 1, 1934, to September 30, 1935 ¹			
	Fluid milk	Manufacturing milk	Total	Percentage manufacturing milk	Fluid milk	Manufacturing milk	Total	Percentage manufacturing milk
	<i>Imperial gallons²</i>	<i>Imperial gallons²</i>	<i>Imperial gallons²</i>	<i>Percent</i>	<i>Imperial gallons²</i>	<i>Imperial gallons²</i>	<i>Imperial gallons²</i>	<i>Percent</i>
Northern.....	34,564,245	7,434,010	41,998,255	17.7	38,020,431	16,956,174	54,976,605	30.8
Northwestern.....	141,230,167	54,280,232	195,510,399	27.8	151,032,133	80,854,125	231,886,258	34.9
Eastern.....	30,231,518	2,704,972	32,936,490	8.2	33,429,346	6,660,894	40,090,240	16.7
East-midland.....	45,586,567	10,660,056	56,246,623	19.0	48,903,691	16,635,298	65,538,989	25.4
West-midland.....	35,903,304	28,005,634	63,908,938	43.8	34,221,278	40,458,694	74,679,972	54.2
North Wales.....	9,375,705	4,486,021	13,861,726	32.4	8,762,357	9,684,077	18,446,434	52.5
South Wales.....	16,587,398	8,018,075	24,605,473	32.6	20,823,472	12,747,359	33,570,831	38.0
Southern.....	51,155,293	6,913,655	58,068,948	11.9	55,119,439	11,353,023	66,472,462	17.1
Mid-western.....	69,851,501	55,463,248	125,314,749	44.3	64,890,133	79,047,749	143,937,882	55.0
Far-western.....	12,514,592	12,407,508	24,922,100	49.8	14,749,074	23,222,673	37,971,747	61.2
Southeastern.....	76,813,036	2,250,150	79,063,186	2.8	82,065,113	4,068,935	86,134,048	4.7
Total or average.	523,813,326	192,623,561	716,436,887	26.9	552,016,467	301,689,001	853,705,468	35.3

¹ Includes sales of milk to schools by producer-distributors.

² 1 imperial gallon is equivalent approximately to 1.2 United States gallons, or, in the case of milk, to 10.328 pounds.

From United Kingdom Ministry of Agriculture and Fisheries, and Scottish Office, *Report on Agricultural Marketing Schemes for the Year 1935*, p. 58, 1936.

It is evident from what has been said above that some regions—the manufacturing regions—profit from the interregional-compensation operations, while other regions lose on account of these operations.

⁷³ In comparison with the prescheme position, it appears that isolated groups of producers who had disposed of their supplies for fluid purposes at high prices in what are otherwise manufacturing regions have suffered most as a result of the operation of the scheme, but it is questionable that they would have maintained their favorable position for very long.

The extent of these gains and losses for the period September 1934 to October 1935 is shown in the following tabulation:⁷⁹

Region:	Pence per gallon	Cents per 100 pounds
Northern.....	-0.28	-5.5
Northwestern.....	-0.11	-2.2
Eastern.....	-1.03	-20.2
East-midland.....	-0.52	-10.2
West-midland.....	+0.90	+17.7
North Wales.....	+0.73	+14.3
South Wales.....	+0.08	+1.6
Southern.....	-0.86	-16.9
Mid-western.....	+0.99	+19.4
Far-western.....	+1.10	+21.6
Southeastern.....	-1.56	-30.6

The regions incurring the largest losses in the interregional-compensation operations correspond to those supplying the smallest proportion of manufacturing milk, while those receiving the largest gains supplied the highest proportion of manufacturing milk.

EFFECT OF THE SCHEME ON PRODUCTION AND SALES

It has been shown above that the Milk Marketing Board has effected an increase in prices paid by handlers for milk utilized for fluid consumption over those that prevailed prior to the introduction of the scheme. Also, returns to producers for manufacturing milk, inclusive of the Government subsidy, were increased over former levels. However, notwithstanding this improvement in prices, average returns were lowered for many producers who, prior to the scheme, had disposed of their milk under fluid contracts. These lowered returns were the result of the increase in the proportion of manufacturing milk sold through the board following the entry into the wholesale milk market of producers who formerly disposed of their milk on their farms.⁸⁰ Other producers, however, who prior to the scheme had disposed of their output in manufacturing channels or only partly in fluid channels, have secured higher returns. In view of these higher returns, it is probable that some increase in the output and sales of the latter class of producers has taken place.

A more important source of increased sales through the board, however, has been new producers of milk for fluid use. In addition to the entrance of farm cheese makers into the wholesale milk market as a result of favorable pool prices, the producers of farm butter have shifted to the sale of whole milk, especially since they have not been subsidized by the board, as has been the case with the farm cheese makers. It also appears that a large number of beef cattle producers have entered the milk market because of the depression in livestock market prices. Some idea of the extent of the increase in the number of producers selling their milk through the board may be had from the figures in table 6. Between December 1933 and December 1934 the number of wholesale contracts registered with the

⁷⁹ *The Home Farmer*, 3(4): 6, April 1936.

⁸⁰ The board has justified the reduction in returns to some producers by pointing out that the "fact that a producer received more for his milk before the Scheme is no criterion that he would have received a similar amount today in an open market." *The Home Farmer*, 1(7): 20, November 1934.

TABLE 6.—Percentage changes in number of wholesale contracts, wholesale sales, and wholesale sales per contract, under the Milk Marketing Scheme between December 1933 and December 1934

Region	Percentage increases, December 1933 to December 1934		
	Number of contracts	Wholesale sales	Wholesale sales per contract
Northern.....	21.9	33.2	9.4
Northwestern.....	.3	16.2	15.8
Eastern.....	10.9	22.1	10.1
East-midland.....	1.6	15.5	13.7
West-midland.....	.3	10.7	10.4
North Wales.....	35.4	59.9	18.1
South Wales.....	20.8	33.3	10.3
Southern.....	2.6	13.7	10.7
Mid-western.....	2.6	16.5	13.6
Far-western.....	53.9	57.3	2.2
Southeastern.....	-3.9	6.5	10.8
Total.....	7.7	18.0	9.5

From Cohen, Ruth L., *The History of Milk Prices*, p. 164, 1936.

board increased 7.7 percent throughout the area of the scheme. The increase amounted to as much as 53.9 percent in the far-western region, though in the southeastern region the number of contracts declined 3.9 percent. Total wholesale sales increased 18.0 percent in the whole area, varying from an increase of 59.9 percent in the North Wales region to an increase of 6.5 percent in the southeastern region.

In table 6 are also shown the wholesale sales per contract in the various regions. In the North Wales region these increased 18.1 percent between December 1933 and December 1934, while in the far-western region they increased only 2.2 percent. These figures do not indicate, however, the extent of the increase in production since the sizes of the new contracts may vary considerably from the old contracts. However, the board estimated early in 1936 that of the total increase in sales under the scheme, 30 percent was due to increased production and 70 percent to the diversion of milk from other channels of disposal.⁶¹ Further, some increase has taken place in the number of dairy cows in England and Wales, the number in 1936 being estimated to have been 3.7 percent greater than in 1933.⁶² It is to be remembered in this connection that a still larger expansion of the dairy industry was taking place before 1933, the number of cows and heifers in England and Wales in that year having been 9.3 percent greater than in 1930.⁶³

While the increase in sales under the scheme has caused difficulties of operation, since the board has been compelled to acquire facilities to handle the larger volume, and has lowered pool prices, thereby eliciting complaints from producers whose incomes were affected, the board has, nevertheless, resisted any proposals for production control. Voicing the opinion of the board, *The Home Farmer* stated that "Producers need have no fear that the board will give the slightest consideration to any proposal for the restriction of production.

⁶¹ *The Home Farmer*, 3(2) : 14, February 1936.

⁶² Economic Series No. 44, p. 344.

⁶³ *Ibid.*, p. 58.

With imports of dairy produce flowing into this country in larger quantities than ever it is never to be expected that there shall be a ban on production at home.⁸⁴

The total fluid sales under the scheme from October 6, 1933, to September 30, 1934, amounted to 633,784,211 imperial gallons, including 109,970,885 gallons sold by licensed producer-distributors. In the period October 1, 1934, to September 30, 1935, these sales had increased 5 percent to 665,265,364 gallons, inclusive of producer-distributor sales of 113,248,897 gallons. Allowing, however, for the difference in the length of the two periods and for the inclusion of small producer-distributors in the second year, the increase in consumption appears to have been approximately 3 percent, accounted for largely by the arrangements for supplying milk to school children at lower prices.⁸⁵ The increase in the sales of manufacturing milk through the board has amounted to approximately 57 percent—from 192,623,561 gallons to 301,689,001 gallons. The increase in the volume of milk used in butter production amounted to 103 percent. As stated above, a large proportion of the expansion in sales was due to a shift from manufacture of cheese and butter on farms. Of the total sales of manufacturing milk through the board in 1934–35, 27.7 percent was utilized in the production of butter, 30.7 percent in cheese, 19.1 percent in condensed milk, 4.3 percent in milk powder, 13.7 percent in fresh cream, 0.9 percent in ice cream, 2.5 percent in tinned cream, and 1.1 percent in other products.⁸⁵

THE QUALITY-IMPROVEMENT PROGRAM

The Milk Marketing Board has instituted a program for improving the quality of the milk produced in England and Wales, in accordance with the original provisions of the scheme. It has established a roll of so-called accredited producers, and since May 1, 1935, has paid them a quality premium of 1 penny per gallon (19.6 cents per 100 pounds) on their sales of milk. To meet the cost of this premium the board has imposed a levy on all milk coming within the provisions of the scheme. This levy is effected through deductions from pool payments to bulk producers and through assessments on producer-distributors.⁸⁶ The levy was first assessed in July 1935 and amounted to 0.179 pence per gallon in that month. With the increase in the number of producers qualified to receive the premium from 2,855 in May 1935 to 21,111 in September 1937 the rate of levy was increased to 0.355 pence in the latter month.⁸⁷ Contrary to the recommendations of the Grigg Commission, no levy for this purpose has been imposed on specialized distributors.

To qualify as accredited producers, farmers were at first required to possess a grade-A license, the conditions of which demanded "the maintenance of an approved standard of cleanliness in the cow-shed and dairy, quarterly veterinary inspection of the dairy herd and

⁸⁴ *The Home Farmer*, 2(2): 7–8, February 1935.

⁸⁵ *Report on Agricultural Marketing Schemes for the Year 1935*, pp. 40, 56–57.

⁸⁶ Since October 1, 1937, the quality-premium levy payable by producer-distributors has formed a part of the flat contributions these producers have since then been obligated to make to the regional pools.

⁸⁷ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 50, 1936; and *The Home Farmer*, 4 (10): 22, 27, October 1937.

periodic testing of milk samples.”⁸⁸ With the establishment of the Milk (Special Designations) Order in 1936, the grade-A license has been replaced by what is known as the “accredited” license, which has conditions somewhat similar to those of the grade-A license. Producers wishing to qualify for the quality premium must henceforth obtain the “accredited” license.

The board has justified this quality-improvement program on the ground that it would increase fluid-milk consumption. Producers, on the other hand, have expressed opposition to it on the basis that it results only in an increase in costs and that none of the cost of the premium payments has been met by distributors or consumers.⁸⁹ It should be pointed out, however, that under the wholesale contracts prescribed by the board distributors have been required to pay a premium of 1 penny per gallon if they resold accredited milk as such at a price higher than the minimum resale price fixed by the board. Many distributors, nevertheless, have not been separating the accredited milk, but have been mixing it with nonaccredited supplies.

Producers of graded milk, other than accredited,⁹⁰ were also qualified to receive the quality premium if they sold their milk through the board. As a class, however, these producers were exempted by the board from the provisions of the scheme. Prior to the introduction of the scheme, they usually disposed of all their supplies in the fluid trade and generally received a premium over the prevailing fluid-milk price. The exemption from the pooling operations of the board placed this class of producers in a particularly advantageous position, since they were not required to share the burden of the lower prices obtained for surplus milk. As a result other producers shifted to graded-milk production, even when they were unable to secure a premium. Their number increased from 474 in October 1933 to 1,403 in December 1936.⁹¹ To remedy this, the 1937 amendments provided for special treatment of this class of producers, so that they might be brought under the provisions of the scheme. It should be pointed out in this connection that, because of the failure of the original provisions to provide special terms for these producers, the board found it necessary to exempt them in the beginning.

Under the 1937 amendments the board pays a premium to graded-milk producers of 1 penny per gallon on their sales of graded milk in addition to the accredited premium. This rate of payment is to prevail until September 1939. Thereafter, the amount of the premium is to be determined by the board, but, if less than 1 penny per gallon, it is to be subject to arbitration.

RESALE PRICES

Under the provisions of the Milk Marketing Scheme the board is empowered to include in the terms of the wholesale contracts for

⁸⁸ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 50, 1936.

⁸⁹ *The Home Farmer*, 1(2): 18, 28-30, June 1934. The exemption of distributors from meeting part of the costs of the program was presumably based on the fact that the Milk Marketing Scheme did not provide for the organization of distributors, as the Grigg Commission had recommended.

⁹⁰ Prior to 1936 these included producers of “certified” milk and what was known as “grade-A (tuberculin tested)” milk. With the issuance of the special designations order in 1936, these grades were replaced by the single “tuberculin tested” grade.

⁹¹ *The Home Farmer*, 4(1): 26, January 1937.

the sale of milk to specialized distributors a provision fixing the minimum margin to be charged by these distributors.⁹² In the case of sales by producer-distributors the board regulates resale prices through the licensing power. Producer-distributor licenses may contain such conditions as the board thinks fit regarding "the price at, below or above which, and the terms upon which, milk may be sold" by them. Provision is also made for consultation with representatives of distributors before resale prices are fixed, but not with representatives of consumers.

In the first contract period, October 1933 to March 1934, the board specified that milk must not be sold by distributors below "the prevailing retail price in the district." This ruling led to a rise in retail prices in many cities and proved difficult to enforce. The Consumers' Committee for England, established under the Agricultural Marketing Acts to safeguard the interests of consumers, criticized this method of dealing with retail prices. It considered that the practical effect of the board's action was to place in the hands of retailers selling most of the milk in any area the power of fixing minimum retail prices. While pointing out that the fixing of prices to producers does not necessitate the fixing of retail prices, the Consumers' Committee recommended that, if retail prices were to be controlled, they should be based on a minimum margin above prices to producers. Further, it recommended that "the board, in prescribing a minimum margin for any area, should base it on a figure low enough to give not more than a reasonable return to the distributors in that area working under the most economical conditions or giving the least expensive service consistent with efficiency."⁹³

Following the recommendations of the Consumers' Committee, the Milk Marketing Board fixed minimum retail margins in the second contract period, April to September, 1934. These margins ranged from 8 pence per gallon (3.4 cents per United States quart) in rural areas, to 10 pence per gallon (4.2 cents per quart) in large cities, and amounted to from 39 to 45 percent of the corresponding retail prices.⁹⁴ The Consumers' Committee, however, considered these margins unsatisfactory. The committee contended that they were too high for the lowest class of services. (Variations in the type of services rendered by distributors in England and Wales appear to be particularly marked.) Further, no provision was made by the board for lower minimum prices for milk sold over the counter in stores. The only exception to this has been the provision, since October 1935, for a reduction by 1 penny per quart below the prevailing minimum price in the district for "milk sold at the farmhouse door." In this connection, the committee proposed that consumers' interests should be adequately represented in the determination of retail prices.

⁹² The board may provide "that the purchaser shall not sell the milk, or permit it to be sold, by retail, except upon such terms as the Board may determine and at a price per gallon (and proportionately for any other quantity) exceeding the purchase price per gallon by not less than such specified amount as may for the time being be prescribed by the Board." No provision is made in the scheme for the control of prices of manufactured dairy products.

⁹³ Consumers' Committee for England, *Report on Milk Marketing Scheme, 1933*, February 19, 1934 (mimeographed).

⁹⁴ Any significant comparison between the distributive margin in England and Wales and that in American cities should take into account differences in wage levels and other factors affecting distributive costs in the two countries. This has not been attempted in this study.

In the third contract period, October 1934 to September 1935, a detailed schedule of minimum retail prices, rather than margins, was specified, providing for variations between different regions and different-sized localities. Distributors in smaller localities were allowed a lower margin than other distributors. In comparison with the previous period, however, the level of retail prices was higher. The increase not only allowed for the higher prices to producers prescribed for that period, but generally effected also a rise in the average distributive margins.

In the 1935-36 and 1936-37 contract periods no changes were made in the minimum retail prices, but, since prices to producers were increased, gross distributive margins were reduced. For the 1937-38 contract period, retail prices have been increased above previous levels, the gain from increased consumer expenditures being shared by producers and distributors. The minimum prices for this period range in small localities from 24 pence per gallon (approximately 10 cents per United States quart) in 10 months to 26 pence in 2 months. In the larger communities in the southeastern region—these areas having the highest retail prices—the prescribed prices range from 24 pence in 3 months to 28 pence in 5 months and to 30 pence (approximately 12½ cents per United States quart) in 4 months. Prices in other areas range from 24 to 28 pence per gallon.

Provision was made in the contract for the second period, and has been retained in subsequent contracts, for application to the board by a majority of retailers, including producer-distributors, in any consuming area, for a reduction in the specified minimum price. The board has reserved the right to reduce the fixed minimum price in such cases. As a result of this provision reductions were made in six cases from April to September, 1934, in 354 instances from October 1934 to September 1935, and in 88 instances from October 1935 to May 1936.⁹⁵

Thus, while distributors' buying prices have been uniform since October 1934 for all markets regardless of size or nearness to producing areas, there has been at the same time a differentiation in retail prices as between different-sized localities, lower prices having been fixed for smaller consuming centers. The lower margins prescribed for small communities were presumably based on lower costs of distributing milk in these communities or on less elaborate distributive services prevailing in them. In any case, the system of differentiation in retail prices as between localities has lessened the impact of the uniform, and consequently higher, wholesale prices on consumers in small towns and rural areas. Before the introduction of the scheme, these consumers had, in general, been able to purchase milk at much lower prices than those that prevailed in the large cities.

Retail prices higher than the minima fixed by the board have been common. A study by the Consumers' Committee of actual retail prices in a limited number of localities has shown that in a substantial number of instances the minimum prices fixed by the board have been exceeded. Actual retail prices were higher than the prescribed minimum in 83 percent of the localities during the spring and summer of 1934; in 33 percent during the following fall and winter months;

⁹⁵ Economic Series No. 44, p. 87.

and in 48 percent during the spring and summer of 1935. On the other hand, it should be pointed out that not in all months during the periods indicated were prices higher than the minimum levels. Prices were lower than the minimum levels originally fixed in 5 percent of the localities during the spring and summer of 1934; in 11 percent during the following fall and winter seasons; and in 3 percent during the spring and summer of 1935.⁹⁶ The reductions in minimum prices were effected through resolutions by majorities of distributors concerned requesting lower retail prices.

In the determination of minimum margins or retail prices, the board has continued the seasonal variation in prices that prevailed before the inauguration of the scheme, whereby retail prices were lower during the spring and summer period than during the remainder of the year. Prior to October 1, 1937, only two levels of seasonally-varying retail prices were fixed, but the number of low- and high-priced months varied between regions and different-sized localities. In the 1937-38 contract, the board introduced for the larger communities in the southeastern region three levels of seasonally-varying retail prices. The lowest retail prices apply to May, June, and July; the intermediate prices, to October, March, April, August, and September; and the highest prices, to November, December, January, and February. Even in these areas, however, the seasonal variation in retail prices is less than that in the corresponding distributors' buying prices. The result is a seasonally-varying distributive margin.

Since April 1934 the board has fixed the minimum margin for wholesale sales (i. e., sales by wholesalers to retail distributors) and for semiretail sales. The latter are defined as sales "exceeding one gallon but not exceeding 10 gallons," and includes sales to restaurants and hotels. The scale of margins on semiretail and wholesale sales has been broadened in the later contract periods. In the 1937-38 contract a reduction in the minimum retail price of 4 pence per gallon is permitted on semiretail sales of 1 to 6 gallons and of 6 pence on sales of 6 to 10 gallons, but the resale price may not be less than the distributors' buying price plus 2 pence. On wholesale sales, margins ranging from $\frac{1}{2}$ penny for single consignments of over 2,000 gallons to $1\frac{3}{4}$ pence for consignments of less than 500 gallons have been fixed.

THE POSITION OF PRODUCER-DISTRIBUTORS UNDER THE SCHEME

Following the recommendations of the Grigg Commission, the Milk Marketing Scheme provided for the inclusion, within the system of regulation, of producers disposing of all or a part of their output of milk directly to consumers. Of particular importance was the provision for contributions by this class of producers to the regional pools and to the interregional compensation fund. Some changes affecting the size and the manner of determination of their contributions were made in the 1937 amendments to the scheme, but the principle of their sharing the burden of lower prices obtained for manufacturing milk by bulk producers has been retained.

⁹⁶ Consumers' Committee for England, *Report on the Milk Marketing Scheme, 1933*, February 14, 1936 (mimeographed).

Under the original provisions of the scheme, producer-distributors equalized to the same extent as other producers on their bulk sales but to a somewhat lesser extent on their retail sales. Milk retained on the farm for manufacture did not enter into the equalization operations. Equalization by producer-distributors on their retail sales was effected through cash payments to the board. The rate of payment per gallon of milk in each region was equal to the sum of (a) the inter-regional-compensation levy, (b) the quality-premium levy, and (c) three-fourths of the difference between the distributors' buying price for fluid milk (less the interregional levy and the quality-premium levy) and the pool price for the same region.⁹⁷ Thus, in the matter of sales of milk for fluid purposes, producer-distributors participated in the interregional compensation operations and in the support of the quality-improvement program to the same degree as other producers. In the intraregional pooling operations and in the support of the board's operating expenses (including liabilities and reserves), however, their contribution was only three-fourths of that theoretically borne by bulk producers on their sales of milk for fluid uses. This reduction in their contributions was based on the ground that they incurred greater costs than other producers in adjusting their production to sales. They were also entitled to deduct from their contributions the level-delivery premium of 1 penny per gallon, provided they retained their surplus on the farm or, in case they sold their surplus to other distributors, the contracts for such sales called for the level-delivery premium. If qualified, they were also entitled to deduct the quality premium from their payments to the board. The payment of the assessments by producer-distributors has been enforced through the board's power to license them, and to suspend or revoke the licenses, without which they have not been permitted to sell milk at retail.

The average gross contribution by producer-distributors (not allowing for deductions by them for the level-delivery or quality premiums) was 1.41 pence per gallon (27.7 cents per 100 pounds) during the first month of the scheme, October 1933. This increased to 2.04 pence in February 1934. For the first year it averaged 1.58 pence. With the increase in the proportion of manufacturing milk sold through the board during the second year, the average gross contribution rose to 2.51 pence, amounting to as much as $3\frac{1}{8}$ pence in some regions in April 1935. Allowing, however, for the level-delivery premium, which was deducted by 88 percent of the producer-distributors in the second year, but not for the quality premium, the average rate of contribution was 0.89 pence during the first year and 1.99 pence during the second year. The gross contribution increased further during the third year, amounting to $4\frac{3}{8}$ pence per gallon (82.2 cents per 100 pounds) in some regions during April 1936.⁹⁸

The large contributions required of producer-distributors caused considerable discontent among them and made collection of payments difficult. Believing these assessments to be unreasonably heavy,

⁹⁷ Prior to October 1, 1937, producer-distributors owning not more than four cows had the choice of paying 10 shillings (\$2.43) per cow per year in lieu of this rate of payment. During the first year of the scheme, producers retailing less than one gallon of milk a day were not required to equalize on their retail sales.

⁹⁸ *Report on Agricultural Marketing Schemes for the Year 1935*, pp. 43, 60, 1936.

many producer-distributors sought to evade their payment. They conceded the principle requiring their participation in the pooling operations, but protested against the size of the charge levied on their sales. In reviewing the position of producer-distributors under the scheme, the Cutforth Commission stated their case for lower contributions as follows:

There are several grounds on which producer-retailers base their claim for more favorable consideration. If they sell milk only by retail they are obliged to maintain level production, with its additional costs, or to carry their own surplus. In fact, they must give a service that is even more onerous than level delivery, for, by the various means available, they must meet exactly the day-to-day requirements of their customers. They also bear their own bad debts, whereas those of producers for the wholesale market are borne by the Board out of the levies made upon all producers, including producer-retailers. In so far as they sell by retail, they put the Board to no trouble or expense in respect of marketing services.

From a more general point of view, producer-retailers submit that the contributions required from them are used almost entirely for the purpose of making up the difference between the pool price and the actual receipts from the sale of manufacturing milk. Like other producers whose interest was formerly in the liquid-milk market alone, they maintain that the subsidization of manufacturing milk is not a matter that should concern them in any considerable degree. They claim that the danger to them from cheap manufacturing milk was always more remote than the danger to the producers supplying the wholesale market: in some cases, such as those of producer-retailers selling small quantities in scattered areas, it was almost negligible. Moreover, they contend that, in their capacity of producer-retailers, they supply only the liquid milk market; that there has been no increase in the quantity of milk sold by them by retail, which would displace other milk previously going into the liquid market and force it into manufacture; and consequently that they are not responsible for any part of the increase in the volume of manufacturing milk. If they sell part of their output on wholesale contract, they make their contribution in respect of that milk in the same way as every other producer for the wholesale market.⁹⁹

The Cutforth Commission did not accede to these views of producer-distributors but believed that a solution of the problem lay in a modification of the entire structure of regulation, which it recommended. (See part VII.) It believed that "The main problem of preventing contributions from rising to a high level will be largely solved . . . if a satisfactory way is found to secure that increases in sales of milk for manufacture shall not widen the gap between the wholesale liquid milk price and the price returned to producers."¹ Further, it stated that, apart from some reduction in the size of their contributions because the scheme was less valuable to them than to bulk producers, there was "no reason in equity for differentiating, in the matter of contributions towards equalizing producers' returns, between producer-retailers and those other producers who were previously selling only to the liquid-milk market."²

Because of the opposition to the large payments by producer-distributors and the consequent administrative difficulties, the Milk Marketing Board proposed on its own initiative in May 1936 a revision in the manner of determination of the contributions and a net reduction in the average size of payment. These proposals were embodied in the 1937 amendments to the scheme. Under these amendments, fixed rates of payment, uniform for the entire scheme

⁹⁹ Economic Series No. 44, pp. 145-6.

¹ *Ibid.*, p. 151.

² *Ibid.*, p. 148.

area, have been established for different grades of milk. Producers of tuberculin-tested milk are required to contribute three-fourths penny on each gallon of milk retailed by them; producers of accredited milk, 1 penny; and producers of nongraded milk, 1 $\frac{3}{4}$ pence. These charges are increased by one-half penny per gallon if the producer-distributor sells any milk on a wholesale contract not calling for level deliveries. They are reduced, however, by one-fourth penny, if payment is made within 14 days of the time it is due. The board is empowered to vary these rates for accredited and nongraded milk after July 31, 1938, and for tuberculin-tested milk after September 30, 1939, but in the latter case the board's action is subject to arbitration.

The 1937 amendments also clarified and broadened the board's powers to determine the amounts due from individual producer-distributors. The power of licensing producer-distributors, provided for in the original provisions of the scheme, was also broadened. The board may require producer-distributors to keep such books and records as it thinks necessary. Finally, the assessment of contributions on producer-distributors has been extended to semiretail sales, which comprise sales of more than 1 gallon but not more than 10 gallons.

THE POSITION OF DISTRIBUTORS AND MANUFACTURERS UNDER THE SCHEME

The specialized milk distributive trade in England and Wales has been affected in various ways by the system of regulation begun under the Milk Marketing Scheme. The strong bargaining position that distributors as a whole enjoyed in the prescheme period has been largely lost with the granting of statutory price-fixing powers to a producers' board. However, this probably has been offset considerably by the increased stability given to the fluid-milk industry. In the securing of supplies the principle of uniform buying prices has eliminated the competition of manufacturing-milk suppliers. This has benefited the bulk of the distributors, particularly those who had purchased their supplies under the Permanent Joint Milk Committee agreements. In the sale of milk to consumers, the competition of lower retail prices by producer-distributors and by specialized distributors who had obtained cheap supplies from manufacturing sources has been eliminated. Further, since the board has fixed only minimum prices, distributors have been able to charge higher prices wherever they have found it advantageous to do so. Because of the lack of data, however, it is impossible to compare in quantitative terms the position of the distributors under the scheme with that in the prescheme period. The conclusion of the Cutforth Commission in this respect has been that "in general the position of the distributors has been improved during the period of operation"³ of the scheme.

The effects of the scheme have not been uniform, however, as between large and small distributors. Under the board's regulations, rebates on manufacturing milk are allowed only to distributors purchasing daily an average of more than 500 gallons and manufacturing

³ Economic Series No. 44, p. 97.

daily, or consigning for manufacture, an average of more than 300 gallons. As a consequence, small distributors have been forced either to pay fluid prices for some milk disposed of in manufacturing uses, or to purchase milk on a level-delivery contract requiring the payment of additional premiums, or to secure their supplies from a wholesale distributor, in this case paying the wholesaler's margin. The board has justified its refusal to grant rebates to small buyers on the basis that the checking of their books involves undue difficulty and expense.⁴

As a result of this policy of the board and of its refusal of supplies to distributors who have failed to make prompt payment, the number of distributors purchasing through the board has declined from 20,000 during the first contract period to about 16,500 during the third contract period.⁵ Not all of these distributors have gone out of business, however. A large number of them probably obtain their supplies from wholesalers.

Under the operation of the scheme the manufacture of dairy products in factories has been greatly extended. The system of intra-regional pooling with interregional compensation has stimulated a shift from farm to factory production, since producers who before the scheme had disposed of their supplies in the manufacture of dairy products on their farms have found it possible to share in the higher prices obtained for milk sold for fluid uses by selling these supplies through the board.⁶ In addition, there has been an increase in the total output of milk, a part of which at least has gone into manufacturing uses. The result has been an expansion of the manufactured-products industry. In this expansion the board has participated. It has acquired and constructed a number of manufacturing plants to facilitate the disposal of the augmented supplies. Ten plants were in operation in March 1937 and additional facilities were then under construction. The disposal of large supplies of milk through the board's plants has furnished the board with information on the costs of manufacture and has given the board a large degree of independence in dealing with the proprietary manufacturers. It has also facilitated the shifting of supplies to areas where temporary shortages of fluid milk have developed.

Through the introduction of the principle of pricing milk for manufacturing purposes on a realization-value basis, a large degree of stability has been given to the manufactured-products industry. Prior to the inauguration of the scheme, manufacturers purchased their supplies at flat prices, generally above realization-value levels, but offset this by selling part of these supplies in the fluid markets. By relating the price for surplus milk to the value of manufactured products, the scheme has made possible the development of manufacture on a stable basis independent of the fluid-milk industry.

In the securing of their supplies for manufacturing purposes, manufacturers have been subjected to a large degree of control by the board. It has already been pointed out that the board has lim-

⁴This policy has been upheld by the Cutforth Commission on the grounds that the larger distributors provide the most economical outlet for disposing of surplus milk, and that it is in the public interest that milk should be handled by large and well-equipped firms, since the danger of contamination is thereby reduced. *Ibid.*, pp. 197-8.

⁵*Ibid.*, p. 93.

⁶The board has attempted to arrest the shift of farm cheese makers to the sale of whole milk by paying subsidies on cheese manufactured on farms. (See part VI.)

ited the sale of milk at manufacturing prices to large buyers. Moreover, these buyers have been restricted further. Rebates on milk utilized for manufacturing purposes have been limited to manufacturing establishments approved by the board. Without such approval, all milk manufactured in an establishment is payable at fluid prices.⁷

Similar arrangements have prevailed in the case of country stations used as plants for collecting, processing, and reshipping fluid milk. Deductions for transit-risk charges and freight charges incurred in shipping milk from the country stations to the consuming centers are permitted only on milk handled in stations approved by the board. The power of the board to grant or withhold approval of country stations has likewise been restricted by the 1936 amendment to the scheme.

ENFORCEMENT

The provisions of the Milk Marketing Scheme and the determinations of the board are enforceable directly with respect to registered producers. The sale of milk by an unregistered producer, unless he is exempted from registration, is a criminal offense under the provisions of the Agricultural Marketing Acts and is punishable on summary conviction by a fine of not exceeding £5, or on conviction on indictment by a fine of not exceeding £200, and, in either case, by an additional fine of not exceeding half the value at which the milk was sold. As regards registered producers, the power to enforce the provisions of the scheme was vested in the board. The board may impose penalties up to £100, plus half of the value for which the milk was sold, for the sale of milk by a registered producer in contravention of any order of the board, or on a contract which omits any term that the board may have prescribed, or in breach of any term providing for registration of the contract. For the retailing of milk without a license or in violation of any of the conditions of the license the board may also impose penalties on registered producers up to £100, or revoke the license if one has been issued, or both. For failure by registered producers to furnish information and returns the board may impose penalties up to £20. As regards handlers, the board may enforce the terms of the contracts through civil action either on its own behalf as a party to the contracts, or as an agent of the producers. It cannot impose any punitive measures on handlers for violation of any of the provisions of the contracts.⁸ At the same time, handlers are under no legal compulsion to purchase milk under the scheme; that is, the purchase of milk in violation of, or outside, the provisions of the scheme is not a legal offense on the part of the purchaser.

During the first 14 months of operation of the scheme the board imposed penalties aggregating £8,050 on 413 producers.⁹ During

⁷ Under the original provisions of the scheme, the board was unrestricted in the exercise of this power. Complaints were made by manufacturers against arbitrary actions by the board in refusing renewal of approval of manufacturing establishments (which is required every year), or in cancelling previous approval. To rectify this, an amendment to the scheme was made in 1936 setting out the grounds on which renewal of approval may be withheld or previous approval cancelled, and providing for advance notice to manufacturers and for arbitration if a manufacturer disputes the board's action.

⁸ Losses incurred through a default in payments by handlers are sustained by the regional pool affected.

⁹ *Report on Agricultural Marketing Schemes*, p. 57, 1935.

1935 penalties totalling £7,461 were imposed on 316 registered producers. Of the latter number, 60 "were penalized for selling milk by wholesale otherwise than under a contract prescribed by and registered with the board; 54 for selling milk by retail without holding a producer-retailer's license; 184 for failing to furnish information and returns; 3 for rendering false returns; and 15 for selling milk at less than the prescribed retail price."¹⁰

To safeguard producers against arbitrary or unfair acts of the board, the scheme provides for the submission of any matter in dispute to an arbitrator to be agreed upon by the aggrieved producer and the board, or, in the event of disagreement, to be chosen by the Minister of Agriculture and Fisheries. Provision is made in the scheme for arbitration of disputes between handlers and the board concerning rebates on manufacturing milk and deductions on country-station milk and concerning certain matters specified in the wholesale contracts.

POLLS AND AMENDMENTS

The scheme provides for polls on amendments or proposals to terminate the scheme. Under the original provisions of the scheme, any 500 registered producers could demand a poll on the question of termination. Such a demand was made in July 1935, pursuant to which a vote of registered producers was taken in the following month. Of the 98,458 producers who voted, representing about 60 percent of the registered producers, 81 percent, owning 86.5 percent of the cows, opposed revocation.¹¹ In July 1936 producers were asked to vote on a series of amendments to the scheme proposed by the board. They were favored by 87.3 percent of the voting producers owning 88.2 percent of the number of cows.¹² They were put into effect in August and October, 1937, and have been referred to extensively above. These amendments provided for the elimination of the exemption of the four-cow bulk producers, the inclusion within the scheme of tuberculin-tested milk, the empowering of the board to reduce the levies on producer-distributors, the modification of the system of transport deductions, the making of the termination of the scheme more difficult, and certain miscellaneous changes in the scheme. Under these amendments, the minimum number of producers that may demand a poll on the question of termination has been raised to 2,000.

Under the Agricultural Marketing Acts, the Minister of Agriculture and Fisheries is empowered to amend any scheme to give effect to recommendations of the Committee of Investigation. Such an amendment, affecting the powers of the board to approve or disapprove manufacturing establishments and country stations, was made by the Minister in 1936.

¹⁰ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 55, 1936.

¹¹ *Ibid.*, pp. 54-55.

¹² *The Home Farmer*, 3 (7) : 7, July 1936.

V—TERMS OF THE 1935-36 AND LATER CONTRACTS

THE 1935-36 CONTRACT

After failure to reach an agreement with the purchasers of milk as to the terms of the wholesale contract for the period October 1935 to September 1936, the Milk Marketing Board used its statutory authority to prescribe the terms of the contract, including the fixing of prices. The board specified an average fluid price for the contract period of $15\frac{1}{2}$ pence per gallon (\$3.04 per 100 pounds).¹³ This compares with an average price of $15\frac{1}{4}$ pence (\$2.96 per 100 pounds) during the 1934-35 contract period and represents, therefore, an increase of $\frac{1}{12}$ penny per gallon (8 cents per 100 pounds). No change was made by the board in the minimum retail price schedule. Against this, the distributors had asked for a reduction in the average buying price of $\frac{2}{3}$ penny per gallon, which they proposed to pass on to consumers. Prices prescribed for manufacturing milk were about the same as in the previous contract except for some modification in the formula for butter and cheese in favor of distributors. The distributors had desired, however, a greater concession. The board also reduced the transit-risk charge to $\frac{1}{4}$ penny per gallon from the $\frac{1}{2}$ -penny rate which was specified in the previous contract. Other alterations, of minor importance, were made by the board in certain clauses of the contract.

The distributors considered the terms of the new contract relating to prices unacceptable, principally because they reduced their margin by the amount they increased the price to producers, and, after the board refused to arbitrate the matters in dispute, they resorted to the provisions of the Agricultural Marketing Acts for the submission of complaints in such cases to the Minister of Agriculture and Fisheries. The distributors objected also to the reduced allowance for transit risks and to certain other clauses in the contract. In their complaint the proprietary distributors were joined, though on somewhat different grounds, by the consumers' cooperatives. In contrast to the proposal of the proprietary distributors, the consumers' cooperatives proposed a reduction in both the price to producers and in the distributive margin so that prices to consumers would be lowered. The Minister referred the complaints of the distributors and the cooperative movement to the Committee of Investigation for England.¹⁴

¹³ The prescribed monthly prices were as follows :

	Pence		Pence		Pence
October-----	17	February-----	17	June-----	13
November-----	17	March-----	17	July-----	13
December-----	17	April-----	16	August-----	13
January-----	17	May-----	13	September-----	16

From *The Home Farmer*, 2 (9) : 7, September 1935.

¹⁴ The Agricultural Marketing Acts provide that "If a committee of investigation reports to the Minister that any provision of a scheme or any act or omission of a board administering a scheme is contrary to the interest of consumers of the regulated product, or is contrary to the interest of any persons affected by the scheme and is not in the public interest, the Minister, if he thinks fit to do so after considering the report and consulting the Board of Trade . . . may by order direct the board to take such steps to rectify the matter as may be specified in the order, and thereupon it shall be the duty of the board forthwith to comply with the order."

REPORT OF THE COMMITTEE OF INVESTIGATION

The Committee of Investigation held hearings intermittently from October 1935 to February 1936 and issued its report in April of the latter year.¹⁵ This report is of considerable interest. Its findings and conclusions with respect to prices and the deduction for transit risks will be considered somewhat in detail.¹⁶

1. The committee recommended an average wholesale price for the 1935-36 contract period of $15\frac{1}{4}$ pence per gallon (\$2.99 per 100 pounds) by reducing the buying price from the levels fixed by the board during 3 months by 1 penny. The price recommended by the committee compares with an average price of $15\frac{1}{2}$ pence prescribed by the board and an average price of $15\frac{1}{2}$ pence in 1934-35. The conclusions of the committee were based principally on an examination of cost-of-production studies submitted by the Milk Marketing Board and on an examination of accounts of costs of distribution submitted by the distributors and the consumers' cooperative societies. The board contended that if its prescribed price "did no more than furnish the farmer with an adequate remuneration for the service which he renders the community, then it did not matter what the distributors were getting."¹⁷ In determining the cost of producing milk for fluid consumption the board included an allowance for the provision of an operating reserve, which, while essential to the fluid-milk trade, is disposed of only at manufacturing prices. The board considered a reserve of 10 percent necessary at all times, but because of the natural increase in production during the heavy producing period this reserve becomes a surplus of 46 percent during the flush season and of 22.5 percent on the average throughout the year. The board not only demanded that the loss on this manufacturing milk, due to its sale at lower prices, be considered as an additional cost of producing milk for fluid consumption but that producers should also be allowed a profit on this milk through a proper adjustment in fluid prices.

The proprietary distributors, on the other hand, showed that losses would be incurred by them on the margins prescribed by the board, and that in 1934-35 the profit per gallon of milk ranged from $\frac{1}{2}$ to 1 penny (1 to 2 cents) in the London area. In other centers smaller profits or even losses prevailed. The cooperative societies, however, showed that they obtained fair profits, amounting in some cases to 4 pence (8 cents) per gallon. They were therefore willing to forego some of this profit in favor of consumers, provided that producers also made some concessions.

While admitting that the "difficulties of arriving at costs of production of agricultural commodities are notorious,"¹⁸ the committee nevertheless accepted the cost-of-production basis of determining the

¹⁵ United Kingdom Ministry of Agriculture and Fisheries, *Report of the Committee of Investigation for England on Complaints made by the Central Distributive Committee and the Parliamentary Committee of the Cooperative Congress as to the operation of the Milk Marketing Scheme, 1933, 1936.*

¹⁶ Pending the findings of the committee, the board arranged for the conclusion of contracts between producers and distributors providing for the subsequent adjustment of accounts in accordance with any request or order by the Minister of Agriculture and Fisheries giving effect to the findings of the committee. It was also provided that in the event the handlers found the Minister's order unsatisfactory they could terminate the contracts for the remainder of the contract period.

¹⁷ *Report of the Committee of Investigation for England*, p. 13.

¹⁸ *Ibid.*, p. 24.

producers' price, but reduced the board's allowance for profit, including remuneration for management and interest on capital, from 2.50 to 2.37 pence per gallon and the average surplus throughout the year arising from the necessary operating reserve to 20 percent. The resulting figure was $15\frac{1}{4}$ pence per gallon. The committee's rejection of the board's prescribed price was further supported on the grounds that the price of $15\frac{1}{4}$ pence was "one that producers in existing circumstances can reasonably afford to accept" and "that a significant number of distributors would be unable to continue in business if the minimum distributive margin in the prescribed contract were maintained."¹⁹

2. Regarding the price formula prescribed by the board for milk utilized in the manufacture of hard cheese, though it was somewhat more favorable than in the 1934-35 contract, the committee concluded that it "was not such as to enable the manufacture of cheese to be carried on at a profit."²⁰ It therefore recommended that, while the price of milk for manufacture into cheese should be based on the values of New Zealand and Canadian cheese, proper weight should be given to the relative quantities of these types of cheese marketed in the United Kingdom. On this basis, the committee estimated, the price in the 1934-35 period would have been lowered by one-fourth to one-third penny per gallon.

3. In the case of milk to be used for manufacture into butter, the board had prescribed a flat price of $3\frac{3}{4}$ pence per gallon (74 cents per 100 pounds), with the exception of the county of Cornwall where the prescribed price was $4\frac{1}{4}$ pence per gallon. In its findings the committee stated that "we are of opinion that the price of milk for manufacture into butter should be related to the prices of imported butter."²¹ It recommended that the formula for the price of milk used for this purpose "should take into account each of the three classes of butter [Danish, New Zealand, and Australian] that form the bulk of the market" and that "the prices should be weighted in proportion to the respective monthly imports of butter."²² In addition, the committee fixed a minimum price of 3 pence per gallon (59 cents per 100 pounds) and recommended the payment of one-half penny per gallon more for milk produced in Cornwall, because of the higher butterfat content of milk in that area.²³ The committee's recommended formula was altered somewhat by the Minister of Agriculture and Fisheries by reducing the allowance for manufacturing costs and by providing a small remuneration to producers for the value of the skim milk.²⁴

¹⁹ *Report of the Committee of Investigation for England*, p. 27.

²⁰ *Ibid.*, p. 41.

²¹ *Ibid.*, p. 45.

²² *Ibid.*

²³ The formula recommended by the committee was as follows: "The price per gallon in any month of milk for manufacture into butter to be the weighted average, divided by 275 in the months from October to February and in the month of September and by 295 in the months from March to August, of the average prices per hundredweight [of 112 pounds] in the previous month of New Zealand finest, Australian choicest and Danish butter (excluding exceptional quotations) less 16 shillings 6 pence, the price to be weighted according to the imports into the United Kingdom of New Zealand, Australian and Danish butter respectively in the said previous month; provided that the price of milk shall not be less than three pence per gallon in any month." *Ibid.*, p. 71.

²⁴ *The Home Farmer*, 3(8): 29, August 1936. The Minister of Agriculture and Fisheries reduced the allowance for manufacturing costs in the formula above to 16 shillings and added one-tenth of a penny per gallon to the price as an allowance for the value of skim milk.

4. The committee also investigated the complaints regarding the prescribed prices for milk used for condensed milk, dry milk, fresh cream, and canned cream, which, with the exception of the price for milk used for canned cream, were not raised by the board; but did not recommend any changes in the board's prices. In the case of milk to be utilized for drying purposes, the distributors had desired a price arrangement whereby they could compete in world markets; that is, a lower price for milk used for dry milk for export than for that used for dry milk for domestic consumption. In this manner they hoped "to regain certain export markets that had been lost to foreign competitors, mainly Holland."²⁵ The board maintained, on the other hand, that dealers "wanted to get a quantity of very cheap milk so as to be able to dump these products abroad" and stated that "such action would bring about retaliatory measures and could not be in the public interest."²⁶

5. Since the introduction of the scheme there has been a disagreement between the Milk Marketing Board and the distributors as to the services covered by the deduction known as a "transit-risk charge" for milk delivered to a country station. The board maintained before the committee that this charge was intended to cover transit risks only, that is, risks arising from possibilities of losses due to spillage or souring of milk, or damage to cans, in transit. It prescribed, therefore, a rate of one-fourth penny per gallon (equivalent to 4.9 cents per 100 pounds), which it considered as amply covering these risks. The distributors, on the other hand, considered that this deduction was for handling charges covering services similar to those rendered by country stations in the United States and for which the so-called country-station charge is deducted from payments to producers in this country.

The committee refused to accept "the Board's argument that the charge has always covered, and is intended to cover, no more than the risk encountered in transport."²⁷ It pointed out that country stations form "a valuable and even essential part of the organization of the milk industry, the benefits of which accrue both to producers and to distributors."²⁸ "We are of opinion," the committee stated, "that the only reasonable basis for assessing the charge payable by producers is their just share of the costs of operating a depot in so far as bulking and brine cooling are carried on."²⁹ On the basis of this conclusion and of evidence which showed that distributors derive a somewhat greater benefit from the operation of country stations, and on the basis of an estimated cost of operation of stations of 0.5 to 0.6 pence per gallon, which included the cost of cans, the committee upheld the prescribed deduction of one-fourth penny per gallon as fair to distributors.

THE 1936-37 AND 1937-38 CONTRACTS

For the contract period October 1936 to September 1937 the Milk Marketing Board prescribed, after consultation with the distributors, an average buying price for fluid milk of 15¼ pence per gallon,

²⁵ *Report of the Committee of Investigation for England*, p. 50.

²⁶ *Ibid.*

²⁷ *Ibid.*, p. 33.

²⁸ *Ibid.*, p. 34.

²⁹ *Ibid.*

this being the same price as that recommended by the Committee of Investigation for the previous contract period. "Coming so soon after the very full inquiry and award of the Committee of Investigation," the board's publication stated, "a change could scarcely be expected."³⁰ Similarly, the minimum retail prices which were prescribed for the previous period, and which also prevailed in the 1934-35 period, were continued. The board increased, however, the buying prices for manufacturing milk utilized for certain products.

An increase in the buying price for fluid milk was effected by the Milk Marketing Board in the contract for the period from October 1937 to September 1938. The board prescribed an average price of $15\frac{11}{12}$ pence per gallon (\$3.12 per 100 pounds), which was an increase of two-thirds penny per gallon over the price in the previous period. At the same time, the minimum retail prices were increased by 1 penny per gallon, thereby effecting an increase in the distributive margin of one-third penny per gallon. Changes were also made in the formulae for the determination of buying prices for milk utilized for butter and cheese so as to increase returns to producers for this milk. Finally, increases were made in the specified prices for milk utilized for the higher-valued manufactured products, such as cream, condensed milk, dry milk, and the like. It has been estimated that the changes relating to manufacturing-milk prices will increase returns to producers for this milk by 1 penny per gallon.³¹

No explanation has been made by the board for the further increase in the prices to producers except that the need for higher returns was "universally acknowledged." The increase in the distributive margin was justified on the basis of "rising costs which the milk industry has to face" and which "are on a par with those in nearly every branch of industry and trade."³²

³⁰ *The Home Farmer*, 3(9) : 5, September 1936.

³¹ *The Home Farmer*, 4(9) : 9, September 1937.

³² *Ibid.*, p. 5.

VI—THE MILK ACTS AND THE GOVERNMENT SUBSIDIES

As a measure of assistance to dairy producers in England and Wales and in Scotland, supplementary to that extended to them under the milk marketing schemes, Parliament enacted the Milk Act of 1934, which became effective on August 15 of that year. The main purposes of this act were (1) to increase returns to producers from the sale of manufacturing milk through advances from the public treasury for a limited period, (2) to improve the quality of the milk supply through the payment of subsidies to producers on milk produced from tuberculosis-free herds, and (3) to stimulate the consumption of milk through government assistance in the financing of programs designed for that purpose.³³ This act was amended, and its temporary provisions were extended, by the Milk Acts of 1936 and 1937.

SUBSIDIES ON MANUFACTURING MILK

The Milk Act of 1934 provided for contingently repayable advances by the Government to the boards so as to bring the return for milk used for manufacturing purposes up to 5 pence per gallon (\$0.98 per 100 pounds) from April to September and up to 6 pence per gallon (\$1.18 per 100 pounds) from October to March. The Government obligated itself to advance to the boards an amount equal to the difference between the above-named prices and the prices realized for milk in any manufacturing use. The provisions for these advances were made retroactive to April 1, 1934, and were to be in effect until March 31, 1936. Thereafter, and for the 2 years following, the boards were to be liable for the repayment of these advances to the Government if the prices realized for manufacturing milk exceeded the guaranteed prices by more than 1 penny per gallon. All sums realized by the boards as a result of a price in excess of the latter amount were to be paid to the Government in obligation of the advances they secured.

The provisions of the Milk Act for guaranteeing minimum prices for milk utilized for manufacturing purposes should be viewed in the light of the recommendations of the Grigg Commission for increasing the restrictions against imports of dairy products. The acceptance of regulation by English milk producers was with the understanding that the Government would take such action. Utterances by officials of the English Milk Marketing Board indicate that a definite promise had been made to that end.³⁴ The existence of the

³³ The Milk Act also contained provisions clarifying certain powers of the milk marketing boards in Great Britain and extending their powers to regulate the destination of milk produced in their respective scheme areas.

³⁴ In an address at the first annual meeting of the Milk Marketing Board, the chairman of the board said as follows: "We have looked to the fulfillment of the Government's promise that the home farmer shall have security in the home market, and that imports shall be regulated accordingly." *The Home Farmer*, 1(2):11, June 1934.

Ottawa agreements, however, which granted free entry into the British market to Empire dairy producers until November 1935, prevented any effective action. Attempts to modify the terms of the agreements with the Dominions in 1933 so as to permit the quantitative regulation of imports apparently met with failure.³⁵ Under these conditions the Government adopted as a temporary expedient the alternative method of subsidizing its home producers and guaranteeing a minimum price for manufacturing milk. The result of this plan has been that producers' returns have been increased and that the British consumer has been enabled to continue to buy cheaply. At the same time, part of the cost of subsidization has been met from the higher revenues obtained from import duties on a larger volume of imports of dairy products than would have prevailed under a quota system. This development has apparently met with favor on the part of the British Government, as a result of which it has abandoned its plan of quantitative regulation.³⁶ At the same time, the English Milk Marketing Board has abandoned its demand for quantitative restrictions. Instead, it has been advocating a levy-subsidy on imports of dairy products, that is, an "ear-marked" tariff, the proceeds of which would be used to subsidize milk producers in Great Britain.³⁷

Pending the adoption of a permanent milk policy with respect to milk producers, the Government determined to continue the temporary provisions of the Milk Act of 1934 providing for advances on manufacturing milk. Accordingly, it secured the enactment of the Milk Acts of 1936 and of 1937, which extended these provisions for 2½ years. The period in which the boards were to be contingently liable for repayment of these advances was correspondingly increased.

In July 1937 the Government issued a declaration on its permanent milk policy.³⁸ In place of the system of repayable advances which prevailed under the Milk Acts, the Government proposed the payment of unconditional subsidies to the boards, on a prescribed scale, if over a period the average price of milk utilized for butter fell below a level of about 4 pence a gallon, or if the average price of milk utilized for cheese fell below a level of about 4½ pence per gallon. The Government also proposed to relieve the boards from any contingent obligations under the Milk Acts after September 30, 1937. The Government also advanced proposals, as a part of its permanent policy for improving the quality of milk and increasing its consumption, for the establishment of a permanent milk commission pursuant to the recommendations of the Cutforth Commission, for the introduction of compulsory pasteurization, and for improving the distributive

³⁵ "When the Prime Minister and Minister of Industries and Commerce [of New Zealand] attended the World Economic Conference of 1933, strong pressure was brought upon them by representatives of the British Government to consent to the revision of the Ottawa agreement without waiting for its expiry in November, 1935, so as to enable the British Government to impose quotas on (*inter alia*) Dominion dairy produce." From "New Zealand and Some Empire Problems," *The Round Table*, No. 95, p. 675, June 1934.

³⁶ "The Government are of opinion that if conditions should warrant continued assistance to the home industry, such assistance could best be afforded by a system of duties or levies." From a statement by the Minister of Agriculture and Fisheries in the House of Commons on July 25, 1935, reported in *Agricultural Statistics*, Pt. II, p. 151.

³⁷ The application for increased duties on dairy products by milk producers as a part of the levy-subsidy plan was denied by the Import Duties Advisory Committee in July 1937.

³⁸ United Kingdom Government, *Milk Policy*, Cmd. 5533, July 1937.

service. These are considered further below. The proposals comprising the Government's policy were to be submitted to Parliament for enactment into law.

Under the temporary provisions of the Milk Act the Government advanced to the English board for manufacturing milk utilized at factories other than those operated by the board £426,744 (\$2,076,750 at par of exchange) from April to September, 1934,³⁹ and £1,027,989 (\$5,002,708) from October 1934 to September 1935. In addition, it advanced £11,252 in the latter period for milk disposed of at the board's factories.⁴⁰ These sums accrued to the regional pools just as other proceeds from the sale of manufacturing milk.

SUBSIDIES TO FARM CHEESE MAKERS

The Milk Acts provided for contingently repayable advances to producers utilizing their milk in the production of farm cheese so as to bring returns for their milk up to the guaranteed levels. These advances have been made through the boards and have constituted in England and Wales one phase of the board's program to assist producers of farm cheese. The Milk Marketing Scheme did not embrace this class of producers but they could have participated in its benefits by registering with, and selling their milk through, the board. In order to prevent a shift of these producers from cheese making to selling their milk on wholesale contracts, which would have had the effect of lowering the pool price, the board had offered to farm cheese makers with at least 12 cows, beginning in April 1934, a contract calling for a payment to them of 1 penny (2 cents) per pound on hard cheese and one-half penny per pound on soft cheese, in addition to the sum advanced by the Government, provided that they did not sell any milk. The amount of this aid has been increased since then, amounting to 5½ pence per gallon (\$1.08 per 100 pounds) and 5 pence per gallon (\$0.98 per 100 pounds), respectively, on hard and soft cheese, from October 1, 1935, to April 30, 1936, and 4½ pence and 4 pence, respectively, from May 1, 1935, to September 30, 1936, inclusive of the Government advances. The board deducts from these payments the levies for expenses, liabilities, and reserves, and for the quality-premium fund, but, if qualified, farm cheese makers are entitled to the quality premium of 1 penny per gallon. The more advantageous terms offered to farm cheese makers in the 1934-35 and 1935-36 contract periods were supplemented by an option to these producers to sell their milk through the board during 6 winter months. Further, the contract for these benefits was made available in the latter contract period to producers owning as few as six cows.

Notwithstanding these substantial measures of aid to farm cheese makers, which together with the income from the sale of cheese appear to have yielded them returns equal to those secured by other producers, a number of farm cheese makers appear to have abandoned the production of cheese on their farms and to have sold their milk through the board on wholesale contracts. The number of farm cheese makers' contracts decreased from 1,324 in the period April

³⁹ *Report on Agricultural Marketing Schemes*, p. 51, 1935.

⁴⁰ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 41, 1936.

to September, 1934, to 820 in the period October 1934 to September 1935, and the volume handled under these contracts declined from 18,846,042 gallons during the first period, covering only 6 months, to 11,531,987 gallons during the second period, covering 12 months.⁴¹

SUBSIDIES TO IMPROVE THE QUALITY OF THE MILK SUPPLY

The Milk Act of 1934 appropriated the sum of £750,000 for the financing during a period of 4 years of arrangements designed to secure "so far as practicable that the milk supplied for human consumption in England or in Scotland, as the case may be, is pure and free from the infection of any disease." Under this provision a program for the elimination of tuberculosis from dairy cattle was instituted in January 1935. A subsidy of 1 penny per gallon has been paid to producers on milk produced from what are known as "attested" herds and sold under the milk marketing schemes. A herd is considered as "attested" when "three consecutive tuberculin tests, taken at suitable intervals, have revealed no reactors."⁴² The requirements for "attested" herds are higher than for "tuberculin tested" herds. In March 1937 there were 250 such herds in England and Wales.⁴³ The subsidies granted to producers by the Government under the program above are in addition to any quality premiums payable to producers under the milk marketing schemes.

In the declaration on milk policy issued in July 1937 the Government proposed to broaden its system of payments to producers to further encourage an improvement in the quality of the milk supply. It proposed to grant subsidies at diminishing rates for a period of 5 years on accredited and tuberculin-tested milk and on milk produced from "attested" herds. "This assistance," the Government announced, "will be partly in the form of quality premiums additional to those now receivable by producers, but they will also be, in part, in relief of the contribution towards quality premiums which all producers in England and Wales make today under the Milk Marketing Scheme."⁴⁴ Under the Government's plan the quality premium on accredited milk would be increased to 1¼ pence during the 5-year period, the Government contributing three-fourths penny in the first and second years, one-half penny in the second and third years, and one-fourth penny in the fifth year. The additional premium on tuberculin-tested milk would remain at 1 penny for 2 years and would be decreased thereafter to three-fourths penny, the Government contributing one-half and one-fourth penny, respectively. On milk produced from "attested" herds additional premiums were proposed for only 3 years—2 pence in the first 2 years and 1¾ pence in the third year, the Government contributing 1½ and 1¼ pence, respectively. The rate of premiums and Government contributions for the fourth and fifth years were to be determined in the third year.

PROVISIONS FOR INCREASING CONSUMPTION

The Milk Act of 1934 contained some provisions for increasing the demand for fluid milk. The Minister of Agriculture and Fisheries

⁴¹ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 50.

⁴² *Economic Series*, No. 44, p. 296.

⁴³ *Report of the Milk Marketing Board*, p. 4, 1937.

⁴⁴ *Milk Policy*, pp. 3-4.

was empowered to contribute during a period of 2 years (extended in the later acts to September 30, 1938) a sum not exceeding one-half of the cost of any arrangements for increasing milk consumption, provided that the total payments did not exceed £1,000,000 for all Great Britain. This sum was increased in the 1936 and 1937 acts to £2,000,000. Under these provisions there has been put into effect a program for supplying milk to school children at reduced prices, a nutritional survey, and a publicity program. The milk-in-schools program provides for the sale of milk to school children for consumption on school premises or at approved centers at reduced prices— $\frac{1}{2}$ penny for one-third of a pint (equivalent to 1 cent for 0.4 United States pint). The retailer receives 6 pence (approximately 12 cents) per gallon for distributing services and the boards receive 6 pence. In England and Wales the Government contributes one-half of the difference between the wholesale price and the price received by the board for the first 18 million gallons sold per year under the program and one-fourth of the difference for the remainder. The total sales of milk under these arrangements in England and Wales in the 1934–35 contract period amounted approximately to 22,750,000 gallons. It is reported that 2,528,000 children benefited from this program in September 1935.⁴⁵

The principle of the milk-in-schools program has been extended in England and Wales through the cooperation of the board, the distributors, and local authorities, to selected classes of low-income consumers who are otherwise unable to purchase milk in sufficient quantities. Since July 1936 milk has been supplied in certain areas to expectant and nursing mothers and to children under school age at a price of 2 pence per pint (3.3 cents per United States pint). From 50 to 64 percent of the number of persons eligible have obtained milk under this program.⁴⁶

As a part of its permanent policy for the dairy industry the Government proposed in the statement issued in July 1937 to continue the extension of assistance to arrangements for the supply of milk to school children at reduced prices. Regarding this program the Government stated that it has "proved its merits, and has resulted in a large increase in the consumption of milk in schools." Concerning the other programs for the sale of milk at reduced prices, the Government stated that it attached equal "importance to an increased consumption of milk by expectant and nursing mothers, and children under school age." It therefore proposed to secure "in cooperation with the industry, a reduction in the price of liquid

⁴⁵ *Report on Agricultural Marketing Schemes for the Year 1935*, pp. 51–2.

⁴⁶ The results of a survey to determine the effects of the reduced price on purchases of milk under this program in the areas of Rhondda, Jarrow, and Walker are of some interest. These results are summarized as follows in *The Home Farmer* for October 1937 (at page 8):

"Taking the total milk purchases of 2,993 families in Rhondda, 824 families in Jarrow and 873 families in Walker, it is found that the percentage increases in the purchases during the period were 42, 114, and 62, respectively. In the original survey the average price paid by these 4,690 families for their milk was 26.45 pence per gallon, and in the second survey, 17.8 pence per gallon (including both full price and cheap milk), a decline of approximately 25 percent. Families with an average per capita consumption of less than 0.1 pints per day (and there were 970 or 21 percent of the total families so situated . . .) are practically nonexistent in the second survey, and the average per capita consumption in all families covered by the surveys has been increased from 0.24 to 0.35 pints daily in Rhondda, 0.14 to 0.30 pints daily in Jarrow, and 0.21 to 0.34 pints daily in Walker. The purchase of milk at full price by these families has declined by 73 percent, but this decrease has been more than replaced by cheap milk."

milk to local authorities for the purpose of their maternity and child welfare arrangements.”⁴⁷

A nutritional survey has been undertaken by the English Milk Marketing Board and the board administering the Scottish Milk Marketing Scheme in connection with the milk-in-schools programs. This has been financed partly by these boards and partly by the Government from funds provided in the Milk Act of 1934. The object of this survey has been “to ascertain the effect upon health of the consumption of milk in varying quantities, and to obtain such further evidence as may be possible as to the relative nutritional value of raw as compared with pasteurized milk.”⁴⁸ The publicity program mentioned above provided “for publicity by means of press advertising, a poster campaign and special forms of advertising covering particularly the period May to October, 1935, at an estimated cost of £60,000,” the Government contributing half of the actual cost.⁴⁹ This program was continued in 1936 and in 1937. It supplemented the research and publicity activities which had been initiated under the Milk Marketing Scheme through a provision in the contracts for an equal contribution by producers and distributors of $\frac{1}{8}$ penny per gallon on all milk sold in the month of May on wholesale contracts.

⁴⁷ *Milk Policy*, p. 7.

⁴⁸ *Report on Agricultural Marketing Schemes for the Year 1935*, p. 52.

⁴⁹ *Ibid.*, p. 53.

VII—PROPOSED MODIFICATIONS: THE RECOMMENDATIONS OF THE CUTFORTH COMMISSION

In February 1935 the Government appointed a second reorganization commission for milk under the chairmanship of Mr. A. E. Cuthforth to investigate the operation of the milk marketing schemes in Great Britain, to recommend changes for their improvement, to consider the possibilities of amalgamating the various schemes, or of closer cooperation between the boards concerned, and to examine the question of closer cooperation between the milk marketing boards in Great Britain and the appropriate authorities in Northern Ireland.⁵⁰

In its report, submitted in November 1936, the commission recommended profound, if not revolutionary, changes in the milk marketing schemes in Great Britain. While these proposals also apply to the schemes in Scotland, which under the commission's plan would be amalgamated into one scheme under a single board, they will be considered particularly in relation to the English scheme, which is the subject of this study. But before considering the commission's recommendations in detail, it is well to point out briefly its conclusions with respect to the incidence of the schemes on producers, distributors, and consumers.

The commission stated that "while all producers have not benefited equally, the schemes have undoubtedly been of great value to milk producers and to agriculture as a whole. Distributors have lost much of their previous control over prices and margins, but as a body they also have benefited from the schemes. The extent of the increase in manufacture is itself sufficient indication that the schemes have not affected manufacturers adversely. The cost of all these advantages has been met by consumers, though they also may gain in the long run by the greater stability given to the milk market."⁵¹

Notwithstanding these not unfavorable conclusions regarding the operations of the milk marketing boards, the commission considered fundamental modifications in the structure of the schemes essential. The first object of such modifications would be to ensure equitable treatment to all sections of producers and distributors. The second would be to secure the location of production in areas best suited for this purpose. The third would be to increase the consumption of fluid milk, particularly by consumers who need it most. The commission's recommendations were designed to put these objectives into effect. It placed particular emphasis on safeguarding the interests of consumers and on promoting the public welfare, rather than on improving the position of producers, whose price-fixing powers under the milk marketing schemes it deplored.

The commission recommended the establishment of an independent permanent milk commission as the central authority for the milk industry in Great Britain. The principal functions of this body, in cooperation with the producers' boards and the handlers' organiza-

⁵⁰ Economic Series No. 44, p. 1.

⁵¹ *Ibid.*, p. 121.

tions, would be "to plan a production policy capable of meeting the Nation's needs and to implement that policy through the medium of prices, and frame measures for stimulating the consumption of liquid milk."⁵² It would administer any subsidies made available by the Government, and it would fix returns to producers and buying prices. The establishment of an independent body with price-fixing powers would be beyond the scope of authority of the Agricultural Marketing Acts, but the Cutforth Commission contemplated the enactment of new legislation for this purpose.

According to the plan of the commission, the permanent milk commission would consist of a chairman and four other members appointed by the Government. The commission would have power to formulate a production policy and to carry that policy into effect through its price-fixing authority. Prices would be determined not by a process of bargaining or negotiation, but on the basis of past experience and future estimates so as to promote the production policy of the commission.

In fixing prices the permanent commission would consult with the milk marketing boards and with distributors and manufacturers. The boards would report, for each contract period, the results of prices and conditions of sale in the previous year with statistics of sales and production, and would submit proposals for prices and terms of sale, together with estimates of probable results, for the coming contract period. Distributors and manufacturers would also be invited to submit reports as to past operations and proposals for future action.

The immediate aim of such regulation, the Cutforth Commission stated, would be to put into effect a production policy consistent with the immediate needs of the consuming public and the more distant considerations of the public interest. In terms of quantity of output, such a policy would aim not only at the production of a volume of milk necessary to meet the requirements for fluid consumption, including the necessary operating reserve, but also at the production of a surplus quantity for manufacturing purposes consistent with the policy of the British Government since the war to maintain agricultural production. The volume of milk thought desirable by the commission would be obtained through fixing returns to producers at such a level as would bring forth this volume. Similarly, the seasonality and location of production would be controlled through seasonal and regional variations in prices. In determining seasonal variations in prices to producers, the commission would "consider at what point the advantages of more level supplies are outweighed by the additional costs of production, and whether seasonal production ought not in any case to be encouraged for special purposes in certain regions."⁵³ Variations in regional output would be controlled by two main considerations: (1) the aim to secure the production of milk in areas best suited for this purpose, and (2) the attainment of this aim gradually, so as to avoid hardships to individual producers. The Cutforth Commission supplemented these recommendations with the definite suggestion that the volume of output in the various regions should not be decreased below current levels. In the course of time, however, "there should be a gradual and controlled adjustment of

⁵² Economic Series No. 44, p. 284.

⁵³ *Ibid.*, p. 269.

production in order to secure that an increasing proportion of the total output of milk is produced in those areas which are best suited for the purpose."⁵⁴

Perhaps the most significant proposal of the commission was that the Government should carry the burden of the surplus, but not of the operating reserve, by meeting, out of State funds, the losses on milk utilized for manufacturing purposes due to the realization for this milk of lower than fluid prices. This would make possible a reduction in prices to consumers, since, in the commission's opinion, consumers are otherwise carrying this burden of the surplus through the payment of higher prices for fluid milk. It justified this proposal on the ground "that it is undesirable that consumers of a food so important to the health of the younger generation as fresh milk should continue to carry any part of the loss resulting from the sale of milk which is surplus to the needs of the liquid milk market and its reserve."⁵⁵ It should be pointed out that the commission considered the maintenance of milk production at the levels attained in 1936, involving a considerable surplus above fluid requirements, as being substantially in the public interest and in harmony with the policy of the British Government. It therefore considered the carrying of the burden of the surplus by consumers as inequitable. The loss on the operating reserve, however, estimated at 20 percent of annual fluid sales, would continue to be met through higher prices on fluid milk.

Coupled with this recommendation was the proposal that milk should be sold to selected classes of consumers at reduced prices through the extension of such further assistance by the Government as might be necessary. The effect of these plans would be to aid not only consumers, in whose interests they would be primarily formulated, but also, through increasing the consumption of fluid milk, the fluid-milk industry. The commission suggested that the cost of this program might be met out of the proceeds of increased import duties on dairy products levied for that purpose. It estimated that, for the contract period 1934-35, £5,000,000 (approximately \$24,300,000) would have been necessary to carry the burden of the surplus for all of Great Britain, but that the amount needed in future years would probably be less. This subsidy would have made possible a reduction in distributors' buying prices, and hence in retail prices, of about 4 pence per gallon during 3 months of the year. No estimates of the cost of extending assistance to special classes of consumers were given, since the commission considered that the manner and extent of such assistance are matters of social policy which would be for the Government to determine. The permanent milk commission would administer all funds extended by the Government.

The commission's recommendations regarding prices were mentioned above in connection with its proposals for a production policy and for the establishment of a permanent commission. These will now be set out in somewhat greater detail. Under the commission's proposal, prices to producers would "be fixed in advance at a level estimated to call forth the quantity of milk required."⁵⁶ Instead of determining returns to producers each month on the basis of total

⁵⁴ Economic Series No. 44, p. 221.

⁵⁵ *Ibid.*, p. 211.

⁵⁶ *Ibid.*, p. 208.

realizations and the volume sold for that month, unit returns would be fixed in advance for an entire contract period of 12 months and such returns would vary regionally and seasonally.

Originally, regional prices would be fixed so as to avoid any undue disturbance to producers in the various regions; that is, the present system of regional differentiation in returns to producers resulting from varying proportions of milk sold for manufacturing purposes in these regions would be maintained. Through gradual changes the aim would be to secure uniform returns to producers throughout the scheme area. Monthly variations in producers' prices would be fixed with a view to bring about the desired balance of production as between seasons. If relatively level production were desired, higher prices to producers during the winter months, relative to summer prices, would be fixed. On the other hand, if it were thought desirable to secure considerable variation in production, relatively small variations in seasonal prices would be fixed. In either case, seasonal variations in prices would not necessarily be the same in all regions.

The commission indicated that the data relating to producers' returns and sales that are available for the period since the inauguration of the milk marketing schemes would be the basis upon which to determine regional and seasonal prices to producers at first. Changes would be made from year to year in accordance with the production policy of the permanent commission. It would appear, however, that the commission underestimated the difficulty of securing a given volume of output during a 12-month period by fixing prices at the beginning of the period.

It is interesting to note that the scheme of fixing prices to producers as outlined by the commission eliminates any consideration of the costs of producing milk. The commission gave brief consideration to the cost-of-production method but concluded that it is "impossible satisfactorily to build up a producer's price from average or modal production costs and estimates of reasonable profits. The ultimate test must be whether or not, over the long period, the price offers sufficient inducement to producers as a whole to produce the quantity of milk required."⁵⁷

The level at which distributors' buying prices would be fixed by the permanent milk commission would be related obviously to the returns guaranteed to producers and the funds made available by the Government. The total proceeds of sales to distributors and other buyers, plus the Government subsidies, would have to be sufficient to meet the commitments to producers and the expenses of each of the boards. The distributor's buying prices for fluid milk would be fixed at such a level that the income from this and other sources would equal the estimated payments to producers and the expenses of the boards in each case. This would involve, of course, an estimate of the volume of consumption at the proposed buying prices.

The commission recognized the difficulty of securing a balance each year between the actual income and expenditure. Accordingly, it proposed the establishment of a reserve fund to meet any unforeseen contingencies. Fluid prices during the first year would be

⁵⁷ Economic Series No. 44, p. 196.

fixed at a level that would provide a reserve income, though the commission did not indicate the size of the reserve fund that should be established. It is questionable, moreover, whether the commission sufficiently realized the extent of the reserve that would be required in order to meet obligations arising from unforeseen increases in deliveries by producers or sudden changes in the value of milk utilized in the manufacture of dairy products.

Contrary to the present practice of the English Milk Marketing Board of fixing uniform buying prices throughout the scheme area, the commission recommended differentiation in regional prices. It considered that "There is no reason in equity why distributors, and therefore consumers, throughout the country should pay a price based on the cost of supplying the largest of the consuming centers when the cost of supplying their own neighborhood is less."⁵⁸ Distributors' buying prices would be varied seasonally, but not necessarily to the same extent as prices to producers, if the permanent milk commission found this essential. The system of level-delivery premiums would be retained.

It follows from the proposals of the commission that the present system of pooling returns would be eliminated, since prices to producers would be determined 1 year in advance for each region and buying prices would be fixed to meet the resulting obligations to producers. Similarly, and for the same reasons, the system of inter-regional compensation levies would be discarded, and regional prices to producers would no longer be related to the relative proportions of milk sold for fluid and manufacturing purposes. The division of the area under the English Milk Marketing Scheme into 11 regions would be retained for purposes of differentiation of prices to producers and buying prices, and for the promotion of locational changes in production rather than for pooling purposes, as has been the case heretofore.

In England and Wales—similar provisions would apply in Scotland—the administration of the scheme would be left to the board. It would continue in its present functions of legally prescribing the terms of the contract, of enforcing its provisions, of controlling registered producers, of receiving payments from distributors, and of paying the guaranteed price to producers, as well as carrying out any new functions assigned to it under the proposed changes, such as administering the transport arrangements. Also, since the board would no longer fix prices, it "will be entirely free to act in their natural capacity as advocates of the interests of producers."⁵⁹ The responsibility for balancing the income from the sale of milk and the Government subsidies with the payments to producers and other expenditures would rest, moreover, with the permanent commission, since that body would fix producers' and buying prices. The permanent commission would be responsible to Parliament and the Government, but its decisions would not be subject to review by a committee of investigation, as are determinations of the board at present.

The Cutforth Commission also recommended changes in the method of assessing levies on producer-distributors. These were

⁵⁸ *Economic Series* No. 44, p. 199.

⁵⁹ *Ibid.*, p. 248.

consequent upon the other changes recommended by the commission. It proposed that producer-distributors who dispose of their surplus milk through the board, that is, through a wholesale contract registered with the board, should be assessed with respect to their retail sales with (1) the quality-premium levy, (2) a levy for administrative expenses, (3) "seven-eighths of the sum (contained in the selling price of liquid milk) representing, in effect, the contribution per gallon of liquid milk towards the loss sustained in disposing of the reserve to the liquid-milk market." Producer-distributors who dispose of all of their supplies at retail, or at retail and on wholesale contracts providing for the level-delivery premiums, would have their assessment reduced by the amount of this premium. The assessment would be uniform throughout the scheme area and would be at a flat rate during the entire contract period. At the same time, if qualified, producer-distributors would receive the quality premium. The commission estimated that if its recommendations are adopted the contributions by producer-distributors would be considerably lower than under the original scheme provisions.

Another phase of regulated marketing dealt with by the Cutforth Commission was that of transportation charges and deductions. Certain inequities which had arisen under the original provisions of the Milk Marketing Scheme, and the amendments which have been adopted to remedy these, were considered in part IV. However, these changes failed to remove the inequities between different classes of direct shippers. Prior to the inauguration of the scheme, buying prices outside of London were more or less related to London prices, which were the highest in the country, and to the appropriate transportation costs to London. Producers in distant areas shipping to a nearby city or town received, approximately, London prices less the cost of transporting the milk to London. They had no advantage over neighboring producers shipping to London, and producers near London received higher net returns. Under the scheme, however, with uniform buying prices throughout the scheme area, an outlying producer selling to a local distributor and having little or no transportation costs would receive higher returns than neighboring producers shipping to London either directly or through a country station. Also, a producer relatively near to the London market might have higher transportation costs, and thus receive lower returns, than a distant producer in the same region who obtained a local contract.

To remedy these conditions, as well as those which the 1937 amendments were designed to rectify, the Cutforth Commission recommended that the Milk Marketing Board should be "responsible, in the first instance, for the payment of all transport charges and should use their position to reduce transport costs as far as possible; and further, that they should recover the total sum spent on transport by deductions from the prices paid to producers, the deductions from individual producers being assessed on a zonal basis."⁶⁰ Under the commission's plan a number of zones varying in distance from the larger markets would be established for which different trans-

⁶⁰ Economic Series No. 44, p. 224.

portation rates would be fixed. Producers would be required to pay the transportation rate for that zone in which they were situated regardless of the destination of their milk. In fixing the freight rates for the various zones such factors as population of the market, density of milk production, and rate of consumption in the market would be taken into account. Producers near the largest markets would have the lowest transportation costs. Under the commission's plan the board would also rearrange contracts with a view towards reducing unnecessary hauls.

The commission's recommendations regarding the fixing of retail prices for milk are of interest. Pointing out that the maintenance of fixed prices to producers does not necessitate the fixing of retail milk prices, and that this had been done mainly at the request of distributors, the commission concluded that such a practice prevents "an efficient distributor from attempting to extend his business by lowering prices, even though the price reduction were justified by his costs, and thus it must tend to prevent the public from benefiting from the efficiency of the most progressive elements in the trade."⁶¹ Accordingly, it recommended "that neither minimum, maximum nor standard retail milk prices should be fixed for the country as a whole,"⁶² but that provision should be made for the fixing of maximum prices by the permanent milk commission for areas where, either through the existence of a monopoly element, or of a combination of distributors, unduly high prices were maintained.

While the question of improving the distributive organization did not strictly fall within the terms of reference of the commission, it nevertheless made some recommendations for improving the efficiency of distribution. The conclusion of the commission in this respect was that "substantial economies could be made both in the processes of distribution and also in the assembly and transport of milk."⁶³ The commission recommended that the permanent milk commission should make an investigation of "the whole question of the organization of the milk supply service, with particular regard to the economies that could be expected, the type or types of organization that would be required for both wholesale and retail distribution, and the problems of equity involved."⁶⁴ At the same time, it advanced certain suggestions for the reduction of costs of retail distribution. It proposed as an immediate measure of reform the limitation of the number of daily deliveries to consumers to one, "with special provision for those consumers who were prepared to pay extra for more frequent deliveries."⁶⁵ As a more distant objective, it proposed a reduction in the number of distributors serving any area "by allotting zones of distribution to retailers and by encouraging the amalgamation of rounds." This would be accomplished by "closing down of redundant businesses, or their amalgamation with others, and the control of the entry of newcomers into the trade."⁶⁶ Finally, the commission recommended for consideration, for both wholesale and retail dis-

⁶¹ Economic Series No. 44, p. 202.

⁶² *Ibid.*, p. 235.

⁶³ *Ibid.*, p. 271.

⁶⁴ *Ibid.*, pp. 276-7.

⁶⁵ *Ibid.*, p. 275.

⁶⁶ *Ibid.*, pp. 275-6.

tribution, of the possibilities of "public utility undertakings, or local monopolies under independent control, or municipal enterprise."⁶⁷

Regarding the question of cooperation between the English and the Scottish milk marketing boards and between these boards and the appropriate authorities in Northern Ireland, a subject included in its terms of reference, the Cutforth Commission recommended the establishment of a standing coordination committee for the consideration of any differences arising between these bodies, the determinations of the committee to be only advisory.⁶⁸

The recommendations of the Cutforth Commission were given only very limited effect in the Government's proposals, comprising its permanent milk policy, announced in July 1937. The Government proposed the establishment of a permanent milk commission, but with very limited powers. Under the Government's plan, the commission would "keep under review the production, marketing and consumption of milk (including the effect of prices on demand)" and would be of general assistance to the industry and to the Government. According to the Government's declaration, "The primary duties of the commission will be concerned with the improvement of milk distribution and with conciliation and arbitration between the Milk Marketing Boards and the milk buyers in business matters. Apart from this, it is not proposed to disturb the existing arrangements for the negotiation of contract terms and prices or the public safeguards provided, under statute, by the consumers' committees and the committees of investigation."⁶⁹ The Government proposed, however, "to take steps to enable the views of consumers to be made available to the Milk Marketing Boards at an early stage in the contract negotiations."

It is evident, then, that the proposed commission will serve merely in an advisory capacity within a limited field rather than in the broad regulatory capacity contemplated by the Cutforth Commission. The far-reaching power to regulate prices and thereby control production, to administer the Government subsidies, and to exercise a large degree of control over the dairy industry, is not to be vested in the proposed body. These powers will be exercised, as heretofore, by the milk marketing boards.

The Cutforth Commission's recommendations for subsidization by the Government of the production of manufacturing milk has also been given only limited effect in the Government's permanent policy. As was pointed out in part VI, the Government proposed to pay subsidies to the boards if the returns for manufacturing milk fall below certain levels. Under the Cutforth Commission's proposals, however, these subsidies would be used to bring about a lowering of prices to consumers for fluid milk. Under the Government's plan, the payments will be unconditional.

The commission's recommendations for the abandonment of retail

⁶⁷ Economic Series No. 44, p. 276.

⁶⁸ The English Milk Marketing Board, in a statement submitted to the Minister of Agriculture and Fisheries and summarized in the May 1937 issue of *The Home Farmer*, expressed its opposition to the principal recommendations of the Cutforth Commission. It particularly opposed the establishment of the proposed permanent milk commission on the ground that it would be a "complete negation of the principles embodied in the Agricultural Marketing Acts, by which control, with adequate statutory safeguards, is vested in primary producers of agricultural commodities." On the other hand, nonagricultural journals, such as *The New Statesman and Nation*, *The Economist*, and *The Statist* (issues of December 5, 1936), supported the commission's conclusions and criticisms of the scheme, though questioning the practicability of some of its proposals.

⁶⁹ *Milk Policy*, pp. 6-7.

price-fixing were not given effect by the Government. The Government proposed, however, as was seen above, to provide for consumer representation in the fixing of the terms of wholesale contracts, which include the retail-price schedules. The Government's proposals also provided for the adoption of measures "to facilitate the improved organization of the distributive service" and for the enactment of legislation to make it possible for local authorities to impose compulsory pasteurization in their respective communities on milk below the tuberculin-tested standard.

VIII—COMPARISON WITH FEDERAL REGULATION OF MILK MARKETING IN THE UNITED STATES ⁷⁰

Since the present bulletin is designed for readers in the United States, it is of interest to compare and contrast the more important aspects of the method of regulation in England and Wales with that in this country. Federal regulation of milk marketing in the United States was first based upon the marketing-agreement and license provisions of the Agricultural Adjustment Act, which became law on May 12, 1933. Specific provisions for the issuance of marketing agreements and orders with respect to milk were made in the amendments to the act, approved August 24, 1935. These were reenacted and modified in the Agricultural Marketing Agreement Act of 1937, which became effective on June 3, 1937. Orders issued under this legislation may provide, among other things, for the classification of milk according to the use in which it is sold by distributors; for the payment by distributors of specified prices or prices determined by specified formulas for milk sold in each use; and for the prorating among producers of the proceeds from the sales of milk to distributors through the establishment of a market-wide pool or an individual-distributor pool. While Federal regulation has been applicable to milk moving in, or affecting, interstate commerce, the legislatures of 19 States have by special acts provided for regulation by State authorities of milk within their respective jurisdictions. The first of these was enacted by the New York State Legislature on April 10, 1933. Comparison with the English scheme will be limited, however, to the Federal system of regulation.⁷¹

1. In contrast with the single fluid-milk supply area of England and Wales, the fluid-milk industry in the United States is characterized by a series of supply areas or milksheds, each tributary to a particular consuming area. There are, of course, also in the United States large dairying regions devoted almost exclusively to the production of milk for manufacture into butter, cheese, or evaporated milk. In England and Wales, on the other hand, as was shown in part I, the entire milk-producing area of the country resembles a single fluid milkshed, though the equalization of returns under the scheme has been effected through a system of regional pools.

In consequence of the prevailing fluid-milk supply conditions in the United States, the system of Federal regulation has involved a separate price or marketing plan for each area under control, formulated under the permissive provisions of the Agricultural Adjustment Act or Agricultural Marketing Agreement Act as a marketing agreement and/or order (marketing agreement and/or license before August 24,

⁷⁰ For a description of the system of Federal regulation see reports on "Agricultural Adjustment," issued by the Agricultural Adjustment Administration, and Black, John D., *The Dairy Industry and the AAA*, 1935.

⁷¹ For a description of various State systems of milk regulation see the publications in the "Series of State Milk Control Acts," issued by the Dairy Section, Agricultural Adjustment Administration.

1935). Certain provisions are common, however, to all marketing agreements and orders, as will be seen below.

There are also marked differences between the dairy industries of Great Britain and the United States regarding the sufficiency of the domestic supply of manufactured products in relation to domestic requirements. While the greater part of the supply of dairy products in Great Britain is imported from external sources, the United States is practically self-sufficient in this regard, with the exception of the importation of foreign varieties of cheese, offset to some extent by the exportation of canned milk. The importation of butter prior to 1935 has been approximately balanced by exports. A further distinction is that, while imports of dairy products from Empire sources into Great Britain are free of duty and those from foreign sources are moderately taxed (3.3 cents per pound on butter), imports into the United States bear substantial tariffs (14 cents per pound on butter). The result of these differences has been that returns to milk producers in Great Britain were seriously affected by low world prices for dairy products, while prices to producers in the United States were to a considerable degree protected against such influences.

2. The underlying objectives of both the English and the American programs were to increase returns to producers, but the immediate objectives differed in some respects. In England and Wales, at the time of the introduction of the Milk Marketing Scheme, the milk-producing industry was in a disorganized state. The cooperative sale of milk was the exception, and the voluntary collective agreements between representatives of milk producers and handlers were ineffectual. The immediate aim in these circumstances was to strengthen through organization the position of producers, to secure universal acceptance of the terms of sale, and to prevent the underselling of the fluid markets by manufacturing-milk suppliers. In the United States, on the other hand, producers in the larger markets were already well organized, though not always in a single body; most distributors in these markets purchased their supplies from organized producers; and differences in sanitation requirements for fluid milk and manufacturing milk had tended to reduce the competition of supplies from manufacturing areas. The aim in the United States was, therefore, to extend through the use of statutory authority the prevailing marketing structure, with such modifications as appeared desirable, to all elements in the market and to increase prices to producers as much as possible in the light of prevailing supply and demand conditions. In consequence, while the former marketing organization and market-price structure in the United States has been substantially retained, the advent of regulated marketing in England and Wales has revolutionized the prescheme milk-marketing and price structure of that country.

3. The administration of regulation differs widely in the two countries. In England and Wales the power to fix prices and other conditions of sale, as well as the execution of purely administrative functions, are vested in a producers' board, with provisions for appeal to the Minister of Agriculture and Fisheries. In the United States, on the other hand, this power is exercised in the first instance by the Secretary of Agriculture through the inclusion of specific terms

of sale in the marketing agreement or order. Purely administrative functions under the agreement or order, including the operation of producer pools, are performed by a market administrator selected by the Secretary of Agriculture.

4. The regulation in the United States of any milk market of an interstate character is dependent upon the wishes of producers in the market. These are generally expressed through producer representatives in their requests for government regulation, through negotiations and conferences, and in the formal hearings held prior to the issuance of a marketing agreement or order, or of an amendment to these. Finally, no order for the regulation of milk becomes effective unless approved by two-thirds of the producers concerned or by producers responsible for at least two-thirds of the quantity produced or sold in the market. The attitude of handlers also is expressed in negotiations and in the hearings, while their formal assent is provided for through their signing of the marketing agreement, but the failure to secure adherence of the distributors to the agreement does not preclude the issuance of an order. The provision for producer approval of the order resembles closely the provisions of the Agricultural Marketing Acts in Great Britain whereby producers must approve a scheme, or an amendment to a scheme, by a two-thirds majority in terms of both the number of producers voting and of their output.

5. As in the English Milk Marketing Scheme, the marketing agreements or orders provide for the payment of milk according to the use in which it is sold by distributors, higher prices being specified for milk for fluid purposes than for other uses, though the number of classifications may vary as between markets. Also, all distributors in the same market pay the same price for milk sold in the same use. This is a fundamental principle in the system of Federal regulation. Under the English scheme distributors' buying prices may vary as between regions though in practice they have been uniform since October 1934 throughout the country.

In the United States the methods of determining buying prices for fluid milk differ from those in England and Wales. The English scheme provides no standard for determining prices, while a producers' board is given the power to fix prices after consultation with handlers, subject only to review by the Minister of Agriculture and Fisheries after appeal by handlers. In the United States the power to fix prices is not only conferred in the first instance on the Secretary of Agriculture, but the relevant legislation provides also a standard for the exercise of this power, and other standards have been adopted in the course of administration. First, a definite guide for fixing prices, namely, the parity-price standard, is provided.⁷² Prices differing from parity levels may be fixed only when justified "in view of the price of feeds, the available supply of feeds, and other economic conditions which affect market supply and demand for milk and its products." Second, provision is made for the attainment of parity prices, "by gradual correction of the current level at as rapid a rate as the Secretary of Agriculture deems to be in the public interest and feasible in view of the current consumptive demand in

⁷² Parity prices are those which "give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period."

domestic and foreign markets." Third, the fact that the system of Federal regulation does not provide for the control of supplies has necessitated the fixing of prices for fluid milk at a level which would maintain the normal competitive relationship with prices for manufacturing milk.

As in the case of the English scheme, prices in the United States for milk in other than fluid uses are based upon their realization values, but are generally related to butter prices. An exception to this is the inclusion, in some price plans, of milk utilized for cream in the fluid-milk classification.

6. There is considerable variation in the method of payment of returns to producers between markets in the United States. This is in contrast with the uniform plan in effect over all of England and Wales, whereby all producers in the same region receive the same average pool price, while returns between regions are equalized to some degree by means of the interregional compensation levies and payments. The simplest pooling plan in operation under the system of Federal regulation in the United States is that of the individual-handler pool without the base-rating plan, under which all producers located an equal distance from the market and delivering to a particular distributor receive the same average price for milk of the same grade and butterfat content, based on the utilization of milk by that distributor. Under this system, considerable variation in returns may exist as between producers dealing with different distributors in the same market. The most complex pooling arrangement provided for in any marketing agreement or order, on the other hand, is that of the market-wide pool with a base-rating plan. Under this, all producers located the same distance from the market, having identical base ratings, and delivering milk of an equal grade and butterfat content, receive the same average price, which is based on the utilization of milk in the whole market. Other market-price plans may provide for market-wide pools without a base-rating plan or individual-handler pools with a base-rating plan.

7. Originally, the system of Federal regulation included the fixing of resale prices, and the marketing agreements and licenses issued in 1933 generally contained complete schedules of resale prices. With the further development of the program, however, all resale price-fixing was abandoned. In England and Wales, as shown in part IV, the Milk Marketing Board has attempted to control resale prices from the beginning and since April 1934 has fixed minimum resale prices or margins. It is interesting to note, however, that the Cutforth Commission has criticized this phase of regulation and has strongly recommended its abandonment, on the ground that it is unessential to the maintenance of prices to producers.

8. While producer-distributors operating in markets under Federal regulation were at first required to equalize on all their sales the same as wholesale producers, the present practice is to exempt this class of producers on milk produced by them from all payments to the market pool, where one is established. They may, however, be required to furnish reports of their operations. On purchases from bulk producers they are treated as distributors, but they receive only the lowest class price for any surplus milk sold to specialized distributors. Under the English Milk Marketing Scheme, on the other

hand, producer-distributors have been required from the outset to contribute to the equalization pools of the bulk producers. It is noteworthy, however, that under the 1937 amendments to the scheme the rate of payments by these producers has been considerably reduced. It should be noted also that, while in the United States producer-distributors receive only the lowest class price for their surplus milk sold to specialized distributors, in England and Wales they receive the pool price for such milk.

9. As shown in part IV, the provisions of the English Milk Marketing Scheme affecting registered producers are enforced by the board, while handlers are subject to civil action for violation of any contract entered into under the scheme. The sale of milk by unregistered producers, unless expressly exempted, is a criminal offense. In the United States, however, while producers and associations of producers may be parties to a marketing agreement, the provisions of the order are enforceable only with respect to handlers. Violations of an order are punishable by fines of \$50 to \$500 for each violation. Provision is also made for the enforcement of orders through injunction proceedings in Federal courts.

10. Finally, provision for the safeguarding of consumers' interests is made under the systems of milk regulation in both countries. In the United States no action is authorized which aims at the maintenance of prices to farmers above the specified standards. The immediate attainment of parity prices is not mandatory, but is to be achieved in the light of market conditions. In England and Wales, as stated in the introduction, a Consumers' Committee has been established under the Agricultural Marketing Acts to report on the effects of the schemes on consumers and to investigate specific complaints. The Minister of Agriculture and Fisheries has the necessary powers to give effect to recommendations of the committee if he so desires.

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